

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

**FORM 20-F**

For the fiscal year ended December 31, 2021

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, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report.

Commission file number: 0-15375

**RADA ELECTRONIC INDUSTRIES LTD.**

(Exact name of Registrant as specified in its charter  
and translation of Registrant's name into English)

**Israel**

(Jurisdiction of incorporation or organization)

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

**Avi Israel, CFO**

**+ 972 76 538 6200 (phone), + 972 9 885 5885 (fax)**

**7 Giborei Israel Street, Netanya 4250407, Israel**

(Name, telephone, facsimile number and address of company contact person)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, NIS 0.03 Par Value	RADA	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: **49,402,847 Ordinary Shares** (As of December 31, 2021).

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Emerging growth company

Accelerated filer   
Non-accelerated filer

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

U.S. GAAP

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

Other

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

Item 17  Item 18

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

Yes  No

This annual report on Form 20-F is incorporated by reference into the registrant's Registration Statements on Form F-3 File Nos. 333-258935, 333-252015 and 333-226387, and on Form S-8 File No. 333-213284, 333-231678 and 333-238502.

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## INTRODUCTION

We are an Israel based global defense electronics company. We specialize in the development, manufacture, marketing and sales of tactical land radars for defense forces and for critical infrastructure protection applications, and military avionics for manned and unmanned aircraft. Our shares are traded on the NASDAQ Capital Market and the Tel Aviv Stock Exchange under the symbol "RADA."

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

### Definitions

In this annual report, unless the context otherwise requires:

- References to "RADA," the "Company," the "Registrant," "our company," "us," "we" and "our" refer to RADA Electronic Industries Ltd. and its consolidated subsidiaries;
- References to "our shares," "Ordinary Shares" and similar expressions refer to RADA's Ordinary Shares, NIS 0.03 par value per share;
- References to "dollars", "U.S. dollars", "U.S. \$" and "\$" are to United States Dollars;
- References to "shekels" and "NIS" are to New Israeli Shekels, the Israeli currency;
- References to the "Articles" are to our Amended Articles of Association, as currently in effect;
- References to the "Securities Act" are to the Securities Act of 1933, as amended;
- References to the "Exchange Act" are to the Securities Exchange Act of 1934, as amended;
- References to "NASDAQ" are to the NASDAQ Stock Market;
- References to the "TASE" are to the Tel Aviv Stock Exchange; and
- References to the "SEC" are to the United States Securities and Exchange Commission.

### Market and Industry Data

We operate in an industry in which it is difficult to obtain precise market and industry information. We have generally obtained the market data in this prospectus supplement from public filings, from industry publications, from studies conducted by third party sources that we believe to be reliable, and based on our experience and our own investigation of market condition

### Cautionary Note Regarding Forward-Looking Statements

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

TABLE OF CONTENTS

		Page No.
<a href="#"><u>PART I</u></a>		1
<a href="#"><u>ITEM 1.</u></a>	<a href="#"><u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u></a>	1
<a href="#"><u>ITEM 2.</u></a>	<a href="#"><u>OFFER STATISTICS AND EXPECTED TIMETABLE</u></a>	1
<a href="#"><u>ITEM 3.</u></a>	<a href="#"><u>KEY INFORMATION</u></a>	1
	A. [Reserved]	1
	B. Capitalization and Indebtedness	1
	C. Reasons for the Offer and Use of Proceeds	1
	D. Risk Factors	1
<a href="#"><u>ITEM 4.</u></a>	<a href="#"><u>INFORMATION ON THE COMPANY</u></a>	17
	A. History and Development of the Company	17
	B. Business Overview	17
	C. Organizational Structure	24
	D. Property, Plants and Equipment	24
<a href="#"><u>ITEM 4A.</u></a>	<a href="#"><u>UNRESOLVED STAFF COMMENTS</u></a>	25
<a href="#"><u>ITEM 5.</u></a>	<a href="#"><u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u></a>	25
	A. Operating Results	25
	B. Liquidity and Capital Resources	28
	C. Research and Development, Patents and Licenses	30
	D. Trend Information	31
	E. Critical Accounting Estimates	32
<a href="#"><u>ITEM 6.</u></a>	<a href="#"><u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u></a>	34
	A. Directors and Senior Management	34
	B. Compensation	38
	C. Board Practices	40
	D. Employees	48
	E. Beneficial Ownership of Executive Officers and Directors	49
<a href="#"><u>ITEM 7.</u></a>	<a href="#"><u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u></a>	50
	A. Major Shareholders	50
	B. Related Party Transactions	51
	C. Interests of Experts and Counsel	51
<a href="#"><u>ITEM 8.</u></a>	<a href="#"><u>FINANCIAL INFORMATION</u></a>	51
	A. Consolidated Statements and Other Financial Information	51
	B. Significant Changes	52
<a href="#"><u>ITEM 9.</u></a>	<a href="#"><u>THE OFFER AND LISTING</u></a>	52
	A. Offer and Listing Details	52
	B. Plan of Distribution	52
	C. Markets	52
	D. Selling Shareholders	52
	E. Dilution	52
	F. Expense of the Issue	52
<a href="#"><u>ITEM 10.</u></a>	<a href="#"><u>ADDITIONAL INFORMATION</u></a>	52
	A. Share Capital	52
	B. Memorandum and Articles of Association	52
	C. Material Contracts	53
	D. Exchange Controls	53
	E. Taxation	53
	F. Dividend and Paying Agents	64
	G. Statement by Experts	64
	H. Documents on Display	64
	I. Subsidiary Information	64
<a href="#"><u>ITEM 11.</u></a>	<a href="#"><u>QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS</u></a>	64
<a href="#"><u>ITEM 12.</u></a>	<a href="#"><u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u></a>	65

<b><u>PART II</u></b>		65
<u>ITEM 13.</u>	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	65
<u>ITEM 14.</u>	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	65
<u>ITEM 15.</u>	<u>CONTROLS AND PROCEDURES</u>	65
<u>ITEM 16.</u>	<u>RESERVED.</u>	66
<u>ITEM 16A.</u>	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	66
<u>ITEM 16B.</u>	<u>CODE OF ETHICS</u>	66
<u>ITEM 16C.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	66
<u>ITEM 16D.</u>	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	67
<u>ITEM 16E.</u>	<u>PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	67
<u>ITEM 16F.</u>	<u>CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	67
<u>ITEM 16G.</u>	<u>CORPORATE GOVERNANCE</u>	67
<u>ITEM 16H.</u>	<u>MINE SAFETY DISCLOSURE</u>	68
<u>ITEM 16I.</u>	<u>DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS</u>	68
<b><u>PART III</u></b>		68
<u>ITEM 17.</u>	<u>FINANCIAL STATEMENTS</u>	68
<u>ITEM 18.</u>	<u>FINANCIAL STATEMENTS</u>	68
<u>ITEM 19.</u>	<u>EXHIBITS</u>	69

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. [Reserved]**

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

Investing in our Ordinary Shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our Ordinary Shares. Our business, prospects, financial condition and results of operations could be adversely affected due to any of the following risks. In that case, the value of our Ordinary Shares could decline, and you could lose all or part of your investment. These risks include, but are not limited to, the following:

**Risks Related to Our Business and Our Industry**

- While we have met with initial success in the introduction of our advanced radars for tactical applications such as defense forces protection and border protection, there can be no assurance that we will succeed in obtaining general market acceptance.
- We have a history of operating losses and may not be able to sustain profitable operations in the future. To the extent that we incur operating losses in the future, we may not have sufficient working capital to fund our operations.
- Reductions in defense budgets worldwide may cause a reduction in our revenues, which would adversely affect our business, operating results and financial condition.
- We may be required to obtain financing for strategic opportunities, which financing may not be available for us in a timely manner or on favorable terms, and which may dilute the holdings of our shareholders and/or require us to incur additional debt.
- Competition in the market for defense electronics is intense. Our products may not achieve market acceptance, which could adversely affect our business, financial condition and results of operations.
- We may not be able to implement our growth strategy which could adversely affect our business, financial condition and results of operations.
- Due to inaccurate forecasts, mistakes or business changes, we may be exposed to inventory-related losses on inventory we purchased in advance and part of our inventory may be written off, which would increase our cost of revenues.
- Epidemics and pandemics, such as the COVID-19 pandemic, could materially disrupt our business and have a negative impact on our financial results and financial condition.
- Other unfavorable national and global economic conditions could have a material adverse effect on our business, operating results and financial condition.
- Sales of our products are subject to governmental procurement procedures and practices; termination, reduction or modification of contracts with our customers or a substantial decrease in our customers' budgets may adversely affect our business, operating results and financial condition.
- If we do not receive the governmental approvals necessary for the export of our products, our revenues may decrease. Similarly, if our suppliers and partners do not receive government approvals necessary to export their products or designs to us, our revenues may decrease, and we may fail to implement our growth strategy.

- We would be adversely affected if we are unable to attract and retain key personnel.
- We depend on sales to key customers and the loss of one or more of our key customers would result in a loss of a significant amount of our revenues, which would adversely affect our business, financial condition and results of operations.
- We depend on suppliers of components for our products and if we are unable to obtain these components when needed, we could experience delays in the manufacturing of our products and our financial results could be adversely affected.
- Rapid technological changes may adversely affect the market acceptance of our products and could adversely affect our business, financial condition and results of operations.
- We enter into fixed-price contracts that could expose us to losses in the event we fail to properly estimate our costs.
- Breaches of network or information technology security, natural disasters or terrorist attacks could have an adverse effect on our business.
- We are subject to risks associated with international operations; we generate a significant portion of our sales from customers located in countries that may be adversely affected by political or economic instability and corruption.
- Many of our end users are U.S. government customers, which subject us to risks including early termination, audits, investigations, sanctions, or penalties.
- We may acquire or invest in companies which may divert our management's attention and result in debt or dilution to our shareholders. We may be unable to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions
- Currency exchange rate fluctuations in the world markets in which we conduct business could have a material adverse effect on our business, results of operations and financial condition.
- Claims that our products infringe upon the intellectual property of third parties may require us to incur significant costs, enter into licensing agreements or license substitute technology.
- If we are unable to protect our intellectual property rights from unauthorized use or infringement by third parties, our business could be adversely affected.
- Increasing scrutiny and changing expectations from investors, lenders, customers and other market participants with respect to our Environmental, Social and Governance, or ESG, policies may impose additional costs on us or expose us to additional risks.
- Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the costs of certain metals used in the manufacturing of our solutions.
- We may fail to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have an adverse effect on our financial results and the market price of our Ordinary Shares.

#### **Risk Related to Our Ordinary Shares**

- Our Ordinary Shares are traded on more than one market and this may result in price variations.
- While our Ordinary Shares are listed on the TASE, there is no guarantee as to how long such listing will be maintained.
- Our share price has been volatile in the past and may decline in the future.
- We do not intend to pay dividends.
- We may be classified as a passive foreign investment company, or PFIC, which would subject our U.S. investors to adverse tax rules.

#### **Risks Related to Our Location in Israel**

- Political, economic and military instability in Israel may disrupt our operations and negatively affect our business condition, harm our results of operations and adversely affect our share price.
- Our results of operations may be negatively affected by the obligation of our personnel to perform military service.
- We may not be able to enforce covenants not-to-compete under current Israeli law.
- We may become subject to claims for remuneration or royalties for assigned service invention rights by our employees, which could result in litigation and adversely affect our business.
- Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.

- The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from those of a typical U.S. corporation.
- Israeli government programs and tax benefits may be terminated or reduced in the future, which could increase our tax expenses.
- As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements.

#### **Risks Related to Our Business and Our Industry**

*While we have met with initial success in the introduction of our advanced ground radars for tactical applications such as defense forces protection and border protection, there can be no assurance that we will succeed in obtaining general market acceptance.*

We have developed a number of radar hardware platforms for use in combat vehicles and tactical protection applications for defense forces and border protection. In December 2014, we announced the first significant order for this product family and while we have been successful in marketing our ground radar products since then, we cannot assure you that our ground radars will achieve broad market acceptance.

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

We incurred operating losses in three of the six years ended December 31, 2021 and may not be able to achieve or sustain profitable operations in the future or generate positive cash flows from operations. As of December 31, 2021, our accumulated deficit was \$48 million. To the extent that we incur significant operating losses in the future or are unable to generate free cash flows from our business, we may not have sufficient working capital to fund our operations and will be required to obtain additional financing. Such financing may not be available, or if available, may not be on terms satisfactory to us. If adequate funds are not available to us, our business, and results of operations and financial condition will be adversely affected.

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

Substantially all of our revenues are derived from the sale of products with military applications.

We expect the U.S. government will continue to place a high priority on national security and will continue to invest in products such as ours. Further, the U.S. Department of Defense, or DoD, budget remains the largest in the world and this offers substantial opportunity for growth.

The U.S. government's fiscal year (FY) begins on October 1 and ends on September 30. On April 9, 2021, the Biden Administration introduced the initial FY 2022 discretionary budget plan. The proposal requests \$753 billion in discretionary funding for national defense and includes \$715 billion for the DoD. The \$715 billion DoD request compares to the FY 2021 enacted amount of \$704 billion. On September 30, 2021, the President signed a continuing resolution (CR) into law that provides continuing FY 2022 appropriations to federal agencies through the earlier of December 3, 2021, or the enactment of the applicable appropriations act. The CR funds most programs and activities at the FY2021 levels with several exceptions.

In December 2021, Biden signed a \$770 billion defense policy bill for fiscal year 2022, which reflects a 5% increase from the previous fiscal year's defense policy measure and includes a 2.7% pay raise for service members and more naval ship and aircraft purchases. The FY 2022 National Defense Authorization Act authorizes the formation of a 16-member commission to look into the Afghanistan war and includes \$4 billion for the European Defense Initiative, \$300 million for the Ukraine Security Assistance Initiative and \$150 million for Baltic security cooperation.

There are risks associated with the timing and amount of future appropriations. If annual appropriations bills are not enacted in the future, the U.S. government may operate under a CR, restricting new contract or program starts and additional government shutdowns, which might involve all government agencies, including the DoD, could arise. Future CR's and government shutdowns may lead to delays in procurement of products due to lack of funding, and those delays may adversely affect our revenue, results of operations and cash flow. Finally, there remains uncertainty surrounding future discretionary defense funding levels and priorities of the Biden Administration and Congress, which could adversely impact demand for our products.



In addition, the defense budgets of a number of countries have declined and may be reduced in the future. Declines in defense budgets may result in reduced demand for our products. This would result in reduction in our core business' revenues and adversely affect our business, results of operations and financial condition.

***We may be required to obtain financing for strategic opportunities, which financing may not be available for us in a timely manner or on favorable terms, and which may dilute the holdings of our shareholders and/or require us to incur additional debt.***

In order to invest in strategic opportunities in support of our growth plans and/or business development activities, we may be required to obtain funds from financing sources, including through debt vehicles or re-financing, sale of new securities or other financing alternatives. There is no assurance that we will be able to obtain sufficient funding, if at all, from the financing sources detailed above or other sources in a timely manner (or on commercially reasonable terms) in order to allow us to fund our growth plans and/or business development activities, which may adversely affect our financial position and operations, may dilute the holdings of our shareholders or require us to incur additional debt.

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

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

Further, we derive a portion of our revenue from direct and indirect sales to governments and their agencies and our competitors are increasingly targeting such governmental agencies as potential clients. Such government contracts are subject to various procurement, competition and other laws and regulations, as well as contractual provisions, and violations could result in the imposition of various civil and criminal penalties, termination of contracts, forfeiture of profits, suspension of payments, or suspension of future government contracting. In addition, these entities may require license terms that we are unwilling to agree to (e.g., open data rights). As such, we may lose government clients to our competitors, our government contracts may be terminated or not be renewed or we may be suspended from government work or the ability to compete for new contracts.

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

In line with our growth strategy, we entered into a number of strategic relationships with Lockheed Martin Corporation, or Lockheed Martin, Boeing Defense, Space & Security, or Boeing, Rafael Advanced Defense Systems Ltd., or Rafael, Elbit Systems Ltd., or Elbit, Leonardo DRS, or DRS, Anduril Industries, or Anduril and Ascent Vision Technologies (a CACI subsidiary), or CACI, to increase our penetration into the defense electronics market. We are currently investing and intend to continue to invest significant resources to develop these relationships and additional new relationships. Should our relationships fail to materialize into significant agreements or should we fail to work efficiently with these companies, we may lose sales and marketing opportunities and our business, results of operations and financial condition could be adversely affected.

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

***Due to inaccurate forecasts, mistakes or business changes, we may be exposed to inventory-related losses on inventory we purchased in advance and part of our inventory may be written off, which would increase our cost of revenues.***

We normally purchase more inventory than is immediately required in order to shorten our delivery time especially in the event of an increase in demand for our products. We have also increased our inventory level in order to accommodate possible consequences of COVID-19. If the actual orders from our customers are lower than projected or if we decide to change our product line or our product support strategy, we will have excess inventory of components or finished products. Our inventory levels may be too high, and inventory may become obsolete or over-stated on our balance sheet. Our inventory of finished products may accumulate. The rate of accumulation may increase in a period of economic downturn. This would require us to write off inventory, which could adversely affect our gross profit and results of operation.

***Epidemics and pandemics, such as the COVID-19 pandemic, could materially disrupt our business and have a negative impact on our financial results and financial condition.***

We are vulnerable to the general economic effects of epidemics, pandemics and other public health crises, such as the COVID-19 pandemic. Due to the recent outbreak of COVID-19, there has been a substantial curtailment of travel and business activities, which is causing significant disruptions to the global economy. The extent to which COVID-19 impacts our results will depend primarily on future developments, which are highly uncertain and cannot be predicted with confidence, including the severity and duration of the crisis, the speed and effectiveness of vaccine and treatment developments and deployment, potential mutations of COVID-19, and the impact of actions taken and that will be taken to contain COVID-19 or treat its impact, among others. For example, if COVID-19 continues to spread, we may need to limit operations or implement additional restrictions as a result of widespread government restrictions.

Our increased reliance on personnel working from home may negatively impact productivity or disrupt, delay or otherwise adversely impact its business. Israel and other countries have enforced quarantines and shutdowns to slow the spread of COVID-19, and restricted international travel during this pandemic.

We are continuing to closely monitor COVID-related impacts on all aspects of our business and geographies, including on our workforce, supply chain and customers. On September 9, 2021, President Biden announced a COVID-19 action plan, including an executive order, the Safer Workforce Task Force guidance issued on September 24, 2021 and the Force Health Protection guidance. This executive order and guidance (as amended) requires U.S. based federal contractors' employees to have had their final vaccination dose by January 4, 2022, with exceptions including where an employee is legally entitled to an accommodation.

State and local governments are also continuing to take actions related to the pandemic, imposing additional and varying requirements on our industry. We are continuing to evaluate these evolving requirements. We cannot at this stage predict the various impacts they may have on our workforce, our suppliers, or our company. These evolving government requirements, including regarding a vaccine mandate, along with broader impacts of the continuing pandemic, could impact our workforce and performance, as well as those of our suppliers.

Our future results of operations and liquidity could be adversely impacted by delays in payments of outstanding receivable amounts beyond normal payment terms, supply chain disruptions and operational challenges faced by our customers. Continued outbreaks of COVID-19 could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn or a global recession that could cause significant volatility or decline in the trading price of our securities, affect our ability to execute strategic business activities, affect demand for our products and likely impact our operating results. These may further limit or restrict our ability to access capital on favorable terms, or at all, lead to consolidation that negatively impacts our business, weaken demand, increase competition, cause us to reduce our capital spend further, or otherwise disrupt our business.

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

During periods of slowing economic activity, our customers may reduce their demand for our products, technology and professional services, which would reduce our sales, and our business, operating results and financial condition may be adversely affected. Significant portions of our operations are conducted outside the markets in which our products and solutions are manufactured or generally sold, and accordingly, we often export a substantial number of products into such markets. We may, therefore, be denied access to potential customers or suppliers or denied the ability to ship products from any of our subsidiaries into the countries in which we currently operate or wish to operate, as a result of economic, legislative, political and military conditions, including hostilities and acts of terrorism, in such countries.

We could also be exposed to credit risk and payment delinquencies on our accounts receivable. In particular, there is currently significant uncertainty about the future relationship between the U.S. and various other countries, with respect to trade policies, treaties, government regulations, and tariffs. Although we partially manufacture in the US, major developments in trade relations, including the imposition of new or increased tariffs by the U.S. and/or other countries, and any emerging nationalist trends in specific countries could alter the trade environment and consumer purchasing behavior which, in turn, could have a material effect on our financial condition and results of operations.

Any slowdown or instability in the global economy could impact income, purchasing power and consumption levels among other things, which could limit growth, increase delinquency rates and ultimately have a material adverse effect on us. In addition, any global economic slowdown or uncertainty may result in volatile conditions in the global financial markets, which could have a material adverse effect on us, including on our ability to access capital and liquidity on financial terms acceptable to us, if at all. Any such adverse effect on capital markets funding availability or costs or in deposit rates could have a material adverse effect on our interest margins and liquidity.

We may also be required in the future to increase our reserves for doubtful accounts. In addition, the fair value of some of our assets may decrease as a result of an uncertain economy and as a result, we may be required to record impairment charges in the future. If global economic and market conditions or economic conditions in key markets remain uncertain or weaken further, our financial condition and operating results may be materially adversely affected.

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

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

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

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

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

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

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

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

***We would be adversely affected if we are unable to attract and retain key personnel***

Our success depends in part on key management, sales, marketing and development personnel and our continuing ability to attract and retain highly qualified personnel, including with respect to our recently formed subsidiaries. There is competition for the services of such personnel. The loss of the services of senior management and key personnel, or the failure to attract highly qualified personnel in the future, may have a negative impact on our business. Moreover, our competitors may hire and gain access to the expertise of our former employees or our former employees may compete with us. There is no assurance that we will be successful in attracting, integrating, motivating and retaining key personnel or that former employees will not compete with in the future. If we are unable to retain our key personnel and attract additional qualified personnel as and when needed, our business may be adversely affected.

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

A significant portion of our revenues is derived from a small number of customers. During the years ended December 31, 2021 and 2020, 49% and 51% of our revenues, were attributable to five customers. We anticipate that a significant portion of our future revenues will continue to be derived from sales to a small number of customers. No assurances can be given that our customers will continue to purchase our products, that we will be successful in any bid for new contracts to provide such products, or that if we were granted subsequent orders, such orders would be of a scope comparable to the sales that we have experienced to date. If our principal customers do not continue to purchase products from us at current levels or if we do not retain such customers and we are not able to derive sufficient revenues from sales to new customers to compensate for their loss, our revenues would be reduced and adversely affect our business, cash flows, financial condition and results of operations.

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

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

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

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

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

We enter into firm fixed-price contracts. If our initial cost estimates are incorrect, we can lose money on these contracts. To the extent we underestimate the costs to be incurred in any fixed-price contract, we could experience a loss on the contract, which could have a negative effect on our results of operations, financial position and cash flow.

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

Cyber-attacks or other breaches of network or IT security, natural disasters, terrorist acts or acts of war may cause equipment failures or disrupt our systems and operations. We may be subject to attempts to breach the security of our networks and IT infrastructure through cyber-attack, malware, computer viruses and other means of unauthorized access, which could also impact the operation of our products and services. The potential liabilities associated with these events could exceed the insurance coverage we maintain. Our inability to operate our facilities as a result of such events, even for a limited period of time, may result in significant expenses or loss of market share to other competitors in the defense electronics market. In addition, a failure to protect the privacy of customer and employee confidential data against breaches of network or IT security could result in damage to our reputation. We have experienced and defended against certain threats to our systems and security (such as phishing and ransomware attempts), and none have had a material adverse effect on our business or operations to date. However, we could incur significant costs in order to investigate and respond to future attacks, to respond to evolving regulatory oversight requirements, to upgrade our cybersecurity systems and controls, and to remediate security compromise or damage. In response to past threats and attacks, we have implemented further controls and planned for other preventative actions to further strengthen our systems against future attacks. However, we cannot assure you that such measures will provide absolute security, that we will be able to react in a timely manner, or that our remediation efforts following past or future attacks will be successful. Consequently, our financial performance and results of operations would be materially adversely affected.

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

We are a defense company with worldwide operations. Although 87% of our sales are in Israel and North America, we expect to derive an increasing portion of our sales and future growth from other regions such as Latin America, India, the Middle East and Central and Eastern Europe, which may be more susceptible to political or economic instability and the economic impact of the spread of COVID-19. In addition, in many less-developed markets, we rely heavily on third-party representatives, consultants and other agents for business development, marketing and distribution of our products. Many of these third parties do not have internal compliance resources comparable to ours. Business activities in many of these markets have historically been more susceptible to corruption. If our efforts to screen third party agents and detect cases of potential misconduct fail, we could be held responsible for the noncompliance of these third parties under applicable laws and regulations, which may adversely affect our reputation and our business, financial condition or results of operations.

Exports (whether direct sales or revenues of our U.S. subsidiary - RTL) accounted for 85% of our revenues in 2021, 80% of our revenues in 2020 and 72% of our revenues in 2019. Our reliance on export sales subjects us to many risks inherent in engaging in international business, including:

- Limitations and disruptions resulting from the imposition of government controls;
- Changes in regulatory requirements;
- The global impact of the COVID-19 pandemic;
- Export license requirements;
- Economic or political instability;
- Trade restrictions;
- Changes in tariffs;
- Currency fluctuations;
- Longer receivable collection periods and greater difficulty in accounts receivable collection;
- Greater difficulty in safeguarding intellectual property;
- Difficulties in managing overseas subsidiaries and international operations; and
- Potential adverse tax consequences.

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

In response to the invasion of the Ukraine by Russia in February 2022, the U.S. and other countries have imposed various sanctions against Russia, including restrictions on selling or importing goods, services or technology in or from affected regions and travel bans and asset freezes impacting connected individuals and political, military, business and financial organizations in Russia. The U.S. and other countries could impose wider sanctions and take other actions. It is not possible to predict the broader consequences of this conflict, which could include further sanctions, embargoes, regional instability, geopolitical shifts in the Middle East and worldwide and adverse effects on macroeconomic conditions, currency exchange rates and financial markets, all of which could impact our business, financial condition and results of operations.

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

Finally, our business also must be conducted in compliance with applicable economic and trade sanctions and export control laws and regulations, including those administered and enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control, the U.S. State Department of State, the U.S. Department of Commerce, the United Nations Security Council, and other relevant authorities. Our global operations expose us to the risk of violating, or being accused of violating, such laws and regulations. Our failure to comply with these trade-related laws and regulations may expose us to reputational harm as well as significant penalties, including criminal fines, imprisonment, civil fines, disgorgement of profits, injunctions and debarment from government contracts, as well as other remedial measures. Investigations of alleged violations can be expensive and disruptive. Despite our compliance efforts and activities, we cannot assure compliance by our employees or representatives for which we may be held responsible, and any such violation could materially adversely affect our reputation, business, financial condition and results of operations.

*Many of our end users are U.S. government customers, which subject us to risks including early termination, audits, investigations, sanctions, or penalties.*

We derive a substantial portion of our revenue from contracts with U.S. defense contractors and systems integrators that ultimately provide our products to the U.S. government, including the DoD. We also occasionally enter into contracts directly with the U.S. government.

We may enter into further contracts with U.S. defense contractors and systems integrators as well as directly with the U.S. government. These contracts subject us to statutes and regulations applicable to companies doing business with the U.S. government. These types of contracts customarily contain provisions that give the government substantial rights and remedies, many of which are not typically found in commercial contracts and which are unfavorable to contractors, including provisions that allow the government to unilaterally terminate or modify contracts, in whole or in part, at the government's convenience or in the government's best interest, including if funds become unavailable to the applicable government agency.

In addition, government contracts and subcontracts normally contain additional requirements that may increase our costs of doing business, reduce our profits, and expose us to liability for failure to comply with these terms and conditions. These requirements include, for example:

- compliance with complex regulations for procurement, formation, administration, and performance of government contracts and subcontracts under the Federal Acquisition Regulations, or FAR, and agency-specific regulations supplemental to the FAR;
- specialized disclosure and accounting requirements unique to government contracts and subcontracts;
- mandatory financial and compliance audits that may result in potential liability for price or cost adjustments, recoupment of government funds after such funds have been spent, civil and criminal penalties, or administrative sanctions such as suspension or debarment from doing business with the U.S. government;
- public disclosures of certain contract and company information; and
- mandatory socioeconomic compliance requirements, including labor requirements, non-discrimination and affirmative action programs and environmental compliance requirements.

Government contracts and subcontracts are also generally subject to greater scrutiny by the government, which can unilaterally initiate reviews, audits and investigations regarding our compliance with government contract requirements. In addition, if we fail to comply with government contract laws, regulations and contract requirements, our contracts and subcontracts may be subject to termination or suspension, and we may be subject to financial or other liability under our contracts or under the Federal Civil False Claims Act. The False Claims Act's "whistleblower" provisions allow private individuals, including present and former employees, to sue on behalf of the U.S. government. The False Claims Act statute provides for treble damages and other penalties and, if our operations are found to be in violation of the False Claims Act, we could face other adverse action, including suspension or prohibition from doing business with the United States government. Any penalties, damages, fines, suspension, or damages could adversely affect our ability to operate our business and our financial results. Further, the negative publicity that could arise from any such penalties, sanctions or findings could have an adverse effect on our reputation and reduce our ability to compete for new contracts with both government and commercial clients. Moreover, government entities typically finance projects through appropriated funds. While these projects are often planned and executed as multi-year projects, government entities usually reserve the right to change the scope of or terminate these projects for lack of approved funding or at their convenience. Changes in government or political developments, including legislative or regulatory changes, budget deficits, shortfalls or uncertainties, government spending reductions or other debt or funding constraints, could result in lower governmental sales and our projects being reduced in price or scope or terminated altogether, which also could limit our recovery of incurred costs, reimbursable expenses and profits on work completed prior to the termination.

***We may acquire or invest in companies which may divert our management's attention and result in debt or dilution to our shareholders. We may be unable to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions.***

We intend to evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets in the future. For example, in March 2021, we signed a Shares Purchase Agreement to invest \$3 million in consideration for a 12% interest in RadSee Technologies Ltd., an early-stage advanced radar technology company. We also may enter into relationships with other businesses to expand our products which could involve investments in or acquisitions of other companies.

Any acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties or delays in assimilating or integrating the businesses, technologies, products, employees or operations of the acquired companies, particularly if the key employees of the acquired company choose not to work for us, their products or services are not easily adapted to work with our products, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management or otherwise. In addition, we may discover liabilities or deficiencies associated with the assets or companies we acquire or ineffective or inadequate controls, procedures or policies at an acquired business that were not identified in advance, any of which could result in significant unanticipated costs. Acquisitions also may disrupt our business, divert our resources or require significant management attention that would otherwise be available for development of our existing business. Moreover, the anticipated benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown risks or liabilities.

Negotiating these transactions can be time consuming, difficult and expensive, and our ability to complete these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if announced, may not be completed. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our existing shareholders;
- use cash that we may need in the future to operate our business;
- incur large charges or substantial liabilities;
- incur debt on terms unfavorable to us or that we are unable to repay;
- encounter difficulties retaining key employees of the acquired company or integrating business cultures;
- encounter difficulties retaining the acquired company's customers; or
- become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges.

The occurrence of any of these foregoing could adversely affect our business, results of operations and financial condition.

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

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

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

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



*If we are unable to protect our intellectual property rights from unauthorized use or infringement by third parties, our business could be adversely affected.*

Our success depends, in part, upon our ability to protect our intellectual property. Although we take steps to protect our intellectual property such as requiring employees and consultants to execute confidentiality agreements, such individuals may breach the terms of such agreements. Further, competitors may develop products and services similar to or superior to ours. Further, we might not be able to detect unauthorized use of, or take appropriate and timely steps to enforce, our intellectual property rights. Enforcing our rights might require considerable time, money and oversight, and we may not be successful in enforcing our rights.

*Increasing scrutiny and changing expectations from investors, lenders, customers and other market participants with respect to our Environmental, Social and Governance, or ESG, policies may impose additional costs on us or expose us to additional risks.*

Companies across all industries are facing increasing scrutiny relating to their ESG policies. Investors, lenders and other market participants are increasingly focused on ESG practices and in recent years have placed increasing importance on the implications and social cost of their investments. The increased focus and activism related to ESG may hinder our access to capital, as investors and lenders may reconsider their capital investment allocation as a result of their assessment of our ESG practices. If we do not adapt to or comply with investor, lender or other industry shareholder expectations and standards, which are evolving, or if we are perceived to have not responded appropriately to the growing concern for ESG issues, regardless of whether there is a legal requirement to do so, we may suffer from reputational damage and the business, financial condition and the price of our company's shares could be materially and adversely affected.

*Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the costs of certain metals used in the manufacturing of our solutions.*

The Dodd-Frank Wall Street Reform and Consumer Protection Act imposes disclosure requirements regarding the use in components of our products of "conflict minerals" mined from the Democratic Republic of Congo and adjoining countries, whether the components of our products are manufactured by us or third parties. These requirements could affect the pricing, sourcing and availability of minerals used in the manufacture of components we use in our products. Although the U.S. Securities and Exchange Commission, or the SEC, has provided guidance with respect to a portion of the conflict mineral filing requirements that may somewhat reduce our reporting practices, there are costs associated with complying with the disclosure requirements and customer requests, such as costs related to our due diligence to determine the source of any conflict minerals used in our products. Because of the complexity of our supply chain, we may face reputational challenges if we are unable to sufficiently verify the origins of the subject minerals. Moreover, we are likely to encounter challenges to satisfy those customers who require that all of the components of our products are certified as "conflict free." If we cannot satisfy these customers, they may choose a competitor's products.

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

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

## Risks Related to Our Ordinary Shares

*Our Ordinary Shares are traded on more than one market and this may result in price variations.*

In 2021, our Ordinary Shares were admitted for trading on the Tel Aviv Stock Exchange (“TASE”) in addition to the NASDAQ Capital Market under the Israeli regulatory “dual listing” regime that provides companies whose securities are listed both on NASDAQ and the TASE certain reporting leniencies. Trading in our Ordinary Shares on these markets is made in different currencies (U.S. dollars on the NASDAQ Capital Market, and NIS on the TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the U.S. and Israel). Consequently, the trading prices of our Ordinary Shares on these two markets often differ. Any decrease in the trading price of our Ordinary Shares on one of these markets could cause a decrease in the trading price of our Ordinary Shares on the other market.

*While our Ordinary Shares are currently listed on the TASE, there is no guarantee as to how long such listing will be maintained.*

Our Ordinary Shares are listed on each of NASDAQ and the TASE under the symbol “RADA.” We plan to continuously examine the various considerations in respect of our dual listing and, in particular, the advisability of maintaining or terminating such dual listing. We may in the future voluntarily delist our securities from the TASE, provided we furnish notice thereof at least 90 days in advance of such delisting. If our Ordinary Shares are delisted, some holders of our Ordinary Shares that are traded on the TASE may be required or will choose to sell their shares, which could result in a decline in the market price of our Ordinary Shares.

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

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

- Quarterly variations in our operating results;
- Operating results that vary from the expectations of securities analysts and investors;
- Changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- Announcements of technological innovations or new products by us or our competitors;
- Announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Changes in the status of our intellectual property rights;
- Announcements by third parties of significant claims or proceedings against us;
- Additions or departures of key personnel;
- Future sales of our Ordinary Shares;
- Delisting of our shares from the NASDAQ Capital Market or the TASE; and
- Stock market price and volume fluctuations.

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

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

***We do not intend to pay dividends.***

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

***We may be classified as a passive foreign investment company, or PFIC, which would subject our U.S. investors to adverse tax rules.***

U.S. holders of our Ordinary Shares may face income tax risks. Based on the composition of our income, assets (including the value of our goodwill, going-concern value or any other unbooked intangibles, which may be determined based on the price of the ordinary shares), and operations, we believe we will not be classified as a "passive foreign investment company", or PFIC, for the 2021 taxable year. However, because PFIC status is based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for our current taxable year or future taxable years until after the close of the applicable taxable year. Moreover, we must determine our PFIC status annually based on tests that are factual in nature, and our status in the current year and future years will depend on our income, assets and activities in each of those years and, as a result, cannot be predicted with certainty as of the date hereof. Furthermore, fluctuations in the market price of our ordinary shares may cause our classification as a PFIC for the current or future taxable years to change because the aggregate value of our assets for purposes of the asset test, including the value of our goodwill and unbooked intangibles, generally will be determined by reference to the market price of our shares from time to time (which may be volatile). The IRS or a court may disagree with our determinations, including the manner in which we determine the value of our assets and the percentage of our assets that are passive assets under the PFIC rules. Therefore, there can be no assurance that we will not be a PFIC for the current taxable year or for any future taxable year. Our treatment as a PFIC could result in a reduction in the after-tax return to U.S. Holders (as defined below under Item 10E. "Additional Information – Taxation") of our Ordinary Shares and would likely cause a reduction in the value of such shares. A foreign corporation will be treated as a PFIC for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income," or (2) at least 50% of the average value of the corporation's gross assets produce, or are held for the production of, such "passive income." For purposes of these tests, "passive income" includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. If we are treated as a PFIC, U.S. Holders of Ordinary Shares would be subject to a special adverse U.S. federal income tax regime with respect to the income derived by us, the distributions they receive from us, and the gain, if any, they derive from the sale or other disposition of their Ordinary Shares. U.S. Holders should carefully read Item 10E. "Additional Information – Taxation" for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our Ordinary Shares.

**Risks Related to Our Location in Israel**

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

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

Conflicts in North Africa and the Middle East, including in Egypt and Syria which border Israel, have resulted in continued political uncertainty and violence in the region. Efforts to improve Israel's relationship with the Palestinian Authority have failed to result in a permanent solution, and there have been numerous periods of hostility in recent years. In addition, relations between Israel and Iran continue to be seriously strained, especially with regard to Iran's nuclear program. Such instability may affect the local and global economy, could negatively affect business conditions and, therefore, could adversely affect our operations. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect our business, financial condition and results of operations in the future.

Furthermore, we could be adversely affected by the interruption or reduction of trade between Israel and its trading partners. Some countries, companies and organizations continue to participate in a boycott of Israeli companies and others doing business with Israel or with Israeli companies. As a result, we are precluded from marketing our products to these countries, companies and organizations. Foreign government defense export policies towards Israel could also make it more difficult for us to obtain the export authorizations necessary for our activities. Also, over the past several years there have been calls in Europe and elsewhere to reduce trade with Israel. Restrictive laws, policies or practices directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business. Israel has also been aggressive in mandating quarantines and restricting local and international travel during the COVID-19 pandemic.

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

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

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

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

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

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

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

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

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

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

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

***Israeli government programs and tax benefits may be terminated or reduced in the future, which could increase our tax expenses.***

We participate from time to time in programs of the Israeli Innovation Authority (formerly the Office of the Chief Scientist) of the Israeli Ministry of Economy, or Innovation Authority, for which we receive funding for the development of technologies and products. We may benefit from certain Israeli government programs and tax benefits, particularly from tax exemptions and cash incentives, including "Approved Enterprise" status due to our manufacturing facilities in Israel. To be eligible for these programs and tax benefits or similar programs in the future, we must meet certain conditions, including making specified investments in fixed assets and equipment. For more information about these programs, see Item 5. "Operating and financial review and prospects – Research & Developments – Israeli Innovation Authority." If we fail to comply with these conditions, we may be required to pay additional penalties, make refunds and may be denied future benefits. From time to time, the Government of Israel has discussed reducing or eliminating the benefits available under these programs, and therefore these benefits may not be available to us in the future at their current levels or at all.

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

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

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. History and Development of the Company**

We were incorporated under the laws of the State of Israel on December 8, 1970. We are a public limited company under the Israeli Companies Law 1999-5759, or the Israeli Companies Law, and operate under this law and associated legislation. Our registered offices and principal place of business are located at 7 Giborei Israel Street, Netanya 4250407, Israel, and our telephone number is: +972-76-538-6200. Our website address is [www.rada.com](http://www.rada.com). The information on our website is not incorporated by reference into this annual report.

We develop, manufacture and sell defense electronics, including tactical land-based radars for defense forces and for critical infrastructure protection solutions, avionics solutions for unmanned aerial vehicles and airborne data/video recording and management systems. In 2019 we completed the sale of our legacy commercial products subsidiary, Beijing Hua Rui Aircraft Maintenance and Service, Co., Ltd., known as CACS. The financial results presented in this annual report were adjusted to present CACS' results in a separate line as "Discontinued Operations."

In March 2018, we announced the formation of a joint venture company with SAZE Technologies LLC. The new company, RADA Technologies LLC, or RTL is based in Germantown, Maryland. In July 2019, we acquired full ownership of RTL. RTL is focused on the adaptation of our tactical radar technology for the U.S. market, certifying the radars to U.S. standards, producing our radars for the U.S. market needs, and providing infrastructure for maintenance and support. In 2020, we formed a new company, RADA Innovations LLC, or RIL, to perform certain classified work on our radars for the U.S. market. RIL began its operations in 2021.

##### **B. Business Overview**

###### **Industry Overview**

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

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

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

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

New products in the defense electronic market are usually developed utilizing customer sponsored research and development funds and are typically tailored to specific customer needs. In many cases, the customer who pays for the design and adaptation, limits the use of intellectual property that was funded by it for other applications, due to either commercial or security reasons. We are developing our products utilizing our internal resources, and as a result we own the proprietary rights and are able to address a wide range of customers and integrators.

#### **Products and Services**

We primarily sell state-of-the-art defense electronics products. We may also provide end-to-end solutions for one or more systems or sub-systems. Our current product lines are:

- Tactical radars, land-based, for defense forces and critical infrastructure protection solutions; and
- Military Avionics (data/video recorders, and core avionics for aircraft and UAVs).

#### **Land-Based Tactical Radars for Defense Forces and Critical Infrastructure Protection Solutions.**

We develop advanced land-based radars for tactical applications such as defense forces protection and critical infrastructure protection. Our pulse Doppler, software-defined radars are solid-state, fully digital, incorporate active electronically scanned array, or AESA antenna, are compact, mobile and highly reliable, provide hemispheric spatial coverage and multi-mission capabilities and can operate on-the-move, or OTM.

The conflicts in which modern armies have been engaged in recent years dictate the needs for instantaneous and real-time intelligence, minimal cycle time for target acquisition, highly accurate weapons with minimal collateral damage and discrimination between hostiles and civilians. Our tactical radars, which move with the maneuvering combat units in the field and operate OTM, provide the real-time knowledge of whether and from where they are threatened, detect all relevant threats, whether unfriendly fire or Drones/UAVs/fighters/helicopters from any angle (including very high angles), discriminate among threats and provide the needed intelligence for any course of action, whether counter-fire or avoidance. We believe that the performance-over-price ratio of our radars makes them ideal solutions for the current needs and requirements of the maneuver forces, and for the protection of critical infrastructure against a variety of threats that can be applied on it.

We have developed various radar hardware platforms: the compact hemispheric radar, or CHR, and its advanced variants, eCHR, aCHR and iCHR, which are tailored for use on combat vehicles and short-range protection applications; and a family of multi-mission hemispheric radars, or MHRs, and its advanced variants, ieMHR, nMHR and exMHR, which are tailored for use in force and critical infrastructure protection applications. All of our radar platforms share basic characteristics, but differ in range, size, frequency band in some cases, weight, and price. We implement several operational missions for our platforms by soft-changing the radar operational parameters.

The current operational missions of the CHR family of radar platforms are:

- Radar sensors for active protection systems, or APS, detecting all relevant threats that may be fired at combat vehicles, including RPGs, anti-tank guided missiles (ATGMs) and projectiles and provide 360° hemispheric coverage. The system delivers threat data to the APS, enabling it to neutralize threats.
- Very-short-range hemispheric air surveillance radar system which can detect, classify and track aerial vehicles, with emphasis on small UAVs. Mobile or stationary, the system can be integrated with any C4I system and other radars and sensors, and can operate either as a stand-alone, or as part of a large-scale surveillance system.

- Perimeter and border protection, detecting, identifying, and tracking aerial and surface intruders including slow and small aircraft, vehicles, vessels, and pedestrians at tactical ranges. Our radars can operate either on a stand-alone basis, or as part of a large-scale surveillance system.

The current operational missions of the MHR family of radar platforms are the following:

- Hostile fire detection radar systems which detect, track, classify and locate direct and elevated threats fired at stationary or mobile forces. They compute the Point-of-Origin (POO) and Point-of-Impact (POI) of the threats, which may be rockets, artillery, mortars, ATGMs, RPGs, and more other threats. The systems can be integrated with any protection and Command, Control, Communications, Computers and Intelligence (C4I) system and be installed at stationary bases and posts, or onboard fighting vehicles.
- Tactical hemispheric air surveillance radar systems which detect, classify and track all types of aerial vehicles, including fighters, helicopters, UAVs, transport aircraft, etc. at tactical ranges. Mobile or stationary, the systems can be integrated with any C4I system and other radars and sensors, and can operate either as a stand-alone, or as part of a large-scale surveillance system.
- Three-dimensional perimeter surveillance radar systems for critical infrastructure protection can detect, identify, and track aerial and surface intruders including slow and small aircraft, air breathing targets, vehicles, vessels, and pedestrians at tactical ranges. The systems can operate either as a stand-alone, or as part of a large-scale surveillance system.

Among our customers and users of our radar systems are leading defense forces and defense contractors worldwide, including the Israeli MOD, IMI (an Elbit Systems subsidiary), Elbit, Rafael, MER Group, Lockheed Martin, Boeing, Leonardo DRS, Anduril, CACI, General Atomics, Elettronica, the U.S. Marine Corps and Navy, the U.S. Air Force, Indian Security Forces, Rheinmetall, Leonardo, MBDA, Thales and many additional integrators and end-users. Some of our customers have purchased a small number of radars for evaluation and integration in their air defense and/or other systems. These initial purchases may turn into larger production orders upon evaluation.

### ***Military Avionics***

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

- Digital video/audio/data recorders, or DVDR (with data transfer functions);
- HD-DVDR, high definition digital video/audio/data recording for fighter and trainer aircraft;
- A wide range of head-up-displays color video cameras, or HCVC, for fighter aircraft; and
- A variety of ground debriefing solutions, or GDS.

These digital recorders feature state-of-the-art technologies and are designed for military applications. Our high-performance recorders provide simultaneous, high-capacity video (both analog and digital/HD), audio and data recording, high throughput and mass storage handling capabilities, supporting rapid dissemination and real-time playback. Our video recorders implement MPEG-2 and/or MPEG-4 (H.264) compression formats and facilitate continuous recording over extended mission durations. Recent upgrades to our recorders provide the ability to record high-definition video formats such as HD-SDI.

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

We have been a developer and manufacturer of core avionics systems for over 35 years. We currently offer a wide spectrum of military avionics systems designed for integration in new and upgraded military aircraft and UAVs worldwide. Our core avionics products are easily adapted to western, eastern, and indigenous-origin platforms of all kinds. In particular, our avionics for UAVs are extremely compact through modern board connectivity solutions, use of innovative passive/conductive cooling techniques, withstand extreme environmental conditions and are very reliable and affordable.



We offer the following avionics solutions:

- Mission data recorders and debriefing solutions and HUD video cameras (as described above); and
- Avionics for UAVs (Interface control processors, engine control computers, Payload management computers and others).

Our airborne products and system solutions are fully qualified and operated by leading air forces and prime integrators worldwide, such as the Israeli Air Force, Lockheed Martin, Boeing Company, HAL, Embraer, IAI, Rafael, the Chilean Air Force, and many others. Our units are installed onboard F-16, F-15, T-6, A-4, Jaguar, MiG-27, Su-30MKI, Dhruv Helicopter, MiG-29, Super-Tucano and other aircraft, and onboard a large number of UAVs.

### **Business Development, Sales and Marketing**

#### *Strategy*

Our business development strategy is based on the following principles:

- Becoming a reliable and trusted supplier of sensors and avionics sub-systems to defense system integrators and major platforms manufacturers with global sales, such as Lockheed Martin, Boeing, Elbit, IAI, Anduril, Rafael, Leonardo DRS, Embraer, HAL, Elettronica, CACI and others;
- Establishing operations in our primary target markets (i.e. U.S.), either through subsidiaries or through joint ventures, for local presence, direct market development, localization of the technology, production and customer support;
- Expanding our global business development efforts and potential customer base, by engaging business development consultants and service providers in the countries and territories in which our products may be used, and actively managing this global network; and
- Establishing strategic relationships with leading integrators in the prime target markets for tactical radars, i.e. U.S., Europe, India; such relationships may involve indigenization and localization of our technologies to enable sales in significant quantities in these markets.

#### *Strategic Relationships and Customers*

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

*Lockheed Martin.* Lockheed Martin is the manufacturer of the F-16 aircraft, one of the most popular fighter aircraft in the western world today. We are supplying the DVDR, HD-DVDR and GDS for new F-16 aircraft production and for F-16 upgrade programs led by Lockheed Martin. In 2015, Lockheed Martin ordered a single radar system for integration in their internally funded high energy laser research and development program and recently acquired a second radar for the same purpose.

*IMI Systems.* IMI (a subsidiary of Elbit Systems) is a world leader in the field of APS for land platforms and is the developer and manufacturer of the “Iron Fist” APS. We teamed with IMI on the integration and production of our CHR family of radars as part of their “Iron Fist” APS solution for local and global customers. During 2016, there was a global increase in the interest of major forces in APS. As a result, since then, we are engaged in extensive efforts with IMI to integrate, test and provide its “Iron Fist” APS to customers in Europe and North America, along with our on-going support. We have sold dozens of radars to IMI to support these activities. We anticipate that these testing efforts will mature into acquisition programs. The first acquisition program was purchased by the IMOD in the end of 2019 to equip the Eitan fighting vehicle with the Iron Fist APS.

*Boeing Defense, Space and Security.* Boeing, a provider of air defense and high-energy laser systems, acquired our MHR in 2013 for evaluation of its use as part its directed energy tactical systems and in 2017 acquired our MHR for integration into critical infrastructure surveillance solutions. We also provide Boeing with recorders and debriefing stations for the T-45 VMTS and have received follow-on orders from Boeing.

*Leonardo DRS.* DRS is a major player in the defense electronics market in North America, with a focus on tactical systems and radars. In 2017, we signed a cooperation agreement with DRS to market and sell our tactical radars in the North American market for counter-UAV, short-range air defense, and other solutions. DRS has acquired a few MHR radars and is actively promoting our radars as part of their system solutions. In 2018, DRS was selected by the US Army as the mission equipment package provider for the Army's IM-SHORAD program, which includes our MHR radars as onboard search sensors. This program has the potential for sale of 144 vehicles, each with 4 MHR radars on board. To date, we have delivered radars for nine prototype units and spares, and a production purchase order for 87 vehicles incorporating 348 radar units.

*Anduril Industries Inc.* Anduril is a fast-growing player in the defense electronics market in North America. Anduril provides base defense and force protection applications, critical infrastructure protection solutions, border security and counter drone systems. Our radars are integrated within such solutions. In 2020 & 2021, we delivered more than 220 radars of the MHR family to be integrated with Anduril's systems.

*European Air Defense Integrators.* Two major European air defense integrators have purchased radars for integration and testing. We have signed a value-added representation agreement with one of the integrators for certain countries where it has a dominant position in sales of air defense and other solutions.

*Rafael Advanced Defense Systems Ltd.* Rafael is a world leader in the development and supply of missiles, smart weapons and pods of various types. Rafael has become a strategic customer of ours as a result of our development and production of a few advanced built-to-specification products in recent years. Recently, Rafael selected the MHR as the radar for the "Drone Dome" system that is designed to counter UAVs and drones and is purchasing radars from us for their customers.

*Military Forces.* We are a provider of digital recorders and debriefing solutions to the Chilean Air Force and to the Indian Air Force, through HAL. Two other Asian military forces have purchased radars for air surveillance and counter-mortar applications. Our tactical radars are used by all the U.S. defense forces for ground-based air defense, point defense, counter rocket, artillery and mortar solutions, and counter unmanned aerial systems. We believe that these strategic relationships with military forces provide us with the potential for prolonged cooperation.

*Israel Aerospace Industries.* We actively supply avionics and test equipment to four different divisions of IAI, and in particular to the MALAT division, who is a major UAS global provider and utilizes our products and services for repeated follow-on orders.

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

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

#### *Business Development and Marketing*

Our Chief Executive Officer, Mr. Dov Sella, together with Mr. Gil Schwartz, our VP Business Development & Marketing and Mr. Rann Maron, our VP Business Development for India, lead our business development and marketing efforts from Israel. Mr. Bill Watson, Ms. Charlene Caputo and Mr. Max Cohen are responsible for our business development and marketing efforts in North America. We currently employ fifteen additional professionals (some of whom are part-time consultants) in business development and the sales of our products. Our program managers, Chief Technology Officer, Chief Operating Officer, VP Product Development and our product managers and engineering departments support our marketing and sales efforts with respect to proposal preparations and product demonstrations. In addition, we have engaged business development consultants in Europe, South America and Asia who receive success fees for sales generated by them. Our RTL subsidiary is responsible for business development in the North American market and works directly with and in cooperation with our U.S. partners on the exploitation of large opportunities in the U.S. Four of our seven part-time consultants are supporting this activity.

The Israeli Ministry of Defense has historically supported and continues to support our marketing efforts through its defense export assistance branch and through various projects for the IDF and its related divisions. There is no guarantee that this type of assistance will be available to us in the future.

We take part and present our tactical radars at the major land systems exhibitions on a regular basis, such as the AUSA Annual Meetings, Eurosatory in Paris, DSEI in London, and in regional or focused exhibitions such as DefExpo in India and SOFIC, MDM and many others in the USA.

#### Fixed Price Contracts

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

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

#### Principal Customers

We generally complete a few major transactions each year, each accounting for 10% or more of our revenues for such year. As a result, each year a significant portion of our revenues is derived from a small number of customers. The following table sets forth our principal customers in 2019, 2020 and 2021:

	Percentage of Revenues		
	2019	2020	2021
Customer A	7%	2%	26%
Customer B	-%	21%	16%
Customer C	7%	14%	4%
Customer D	-%	10%	2%
Customer E	12%	4%	1%

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

#### Geographical Markets

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

	2019	2020	2021
North America	50%	60%	72%
Israel	28%	20%	15%
Asia	6%	2%	8%
Europe	14%	16%	4%
South and Latin America	2%	1%	-%
Other	-%	1%	1%

## **Joint Venture in India**

In August 2021, we signed a Memorandum of Understanding with Alpha Design Technologies Pvt. Ltd. (“Alpha Design”), to establish a joint venture to market, manufacture, sell and support our radars in India. Alpha Design is 1,200+ person-strong, professional R&D and production organization, focused on the defense and aerospace domains.

## **Competition**

The markets for our products are highly competitive. Our principal competitors in the avionics and recorder markets include Elbit Systems Ltd., Honeywell International Inc., IAI, Northrop Grumman Corporation, Sagem Avionics LLC., Thales Group and Zodiac Aerospace Group. Our principal competitors on tactical radars are IAI (through its subsidiary, Elta), SRC Inc., Raytheon, Northrop Grumman, Dynetics (Leidos), SAAB, Thales, Hensoldt and Leonardo Selex. We expect to continue to face competition from these and other competitors. All of our competitors are larger and have substantially greater resources than us, including financial, technological, marketing and distribution capabilities, and enjoy greater market recognition than we do. These competitors may be able to achieve greater economies of scale and may be less vulnerable to price competition than us. We may not be able to offer our products as part of integrated systems to the same extent as our competitors or successfully develop or introduce new products that are more cost effective or offer better performance than those of our competitors. Failure to do so could adversely affect our business, financial condition and results of operations.

## **Government Regulations**

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

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

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

## **Intellectual Property**

We generally do not rely on patent protection to protect our products and instead choose to rely upon a combination of trade secret laws’ logical and physical security measures and contractual restrictions to protect such rights. These measures may not be adequate to protect our technology from third-party infringement, and our competitors might independently develop technologies that are substantially equivalent or superior to ours. Additionally, our products may be sold in foreign countries that provide less protection for intellectual property rights than that provided under U.S. or Israeli laws.

We also rely on our trademarks and trade names to distinguish our products from the products of our competitors and other third parties. Third parties may oppose our trademark applications, or otherwise challenge our use of our trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition, and could require us to devote significant resources to rebranding.

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

#### **Manufacturing and Quality Management**

Our Israeli production plant is located in Beit She'an, Israel. The plant is equipped to handle most of our manufacturing processes and testing requirements. For some processes we utilize outsourced resources. This structure allows us flexibility and versatility. To support the growth in radar production, we have established a supply chain of board assembly providers and chassis/casting providers, while final assembly, calibration and testing is accomplished internally. We duplicated our Israeli assembly facilities in our facility in Maryland, that is now supplying our radars to the U.S. market.

We place great emphasis on quality management and control in all of our operations processes. Commencing with customer requirements and expectations, via raw material inspection through completion, specifications are repeatedly checked. We maintain a quality assurance team that participates in every stage of the design and manufacturing of the products. Our quality management system is certified by the Standards Institute of Israel, or SII, pursuant to ISO 9001:2015 for hardware design and production and ISO 90003:2018 for software design. SII performs quality system audits twice a year and various customers perform audits four to six times a year. Our environmental management system is certified by SII to ISO 14001:2015 (both in Israel and in the U.S.) and our quality management system is also certified according to AS-9100D (2016), a quality management system for aerospace requirements (both in Israel and in the U.S.). In February 2022, our company successfully achieved ISO 45000 Certification for occupational, health and safety management systems.

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

#### **Source and Availability of Raw Materials**

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

#### **C. Organizational Structure**

RADA Technologies LLC and RADA Innovations LLC, are our Germantown, Maryland based subsidiaries in the U.S.

#### **D. Property, Plants and Equipment**

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

Our executive offices, sales and marketing and research and development facilities are located in a 30,500 square feet office facility in Netanya, Israel and a 1,450 square feet R&D facility in Beer Sheva, Israel. The Netanya lease expires in March 2026 and the Beer Sheva lease expires in March 2022 and a new lease agreement planned to be sign afterwards. We also signed a lease for two warehouses in Beit She'an, Israel, consisting of 14,500 square feet in total, that expire in August 2032. The aggregate annual rent for our offices in Israel was approximately \$850,000 in 2021.

As of December 31, 2021, RTL is occupying approximately 27,500 square feet of office and production facilities in Germantown, Maryland (also for RIL). The lease for this facility, whose current monthly rental cost is approximately \$65,000, expires in July 2030.

#### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

##### **A. Operating Results**

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

##### **Overview**

We develop, manufacture and sell defense electronics including tactical land radars for force and critical infrastructure protection applications, and military avionics systems for manned and unmanned aircraft. Our U.S. wholly owned subsidiary, RTL, is focused on adapting our tactical radar technology for the U.S. market by altering our technology to meet U.S. customer requirements, certifying the radars to U.S. standards, manufacturing radars and providing local maintenance and support services.

##### **General**

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

##### **Impact of the COVID-19 Pandemic on Our Operations**

The impact of the COVID-19 pandemic has resulted in and will likely continue to result in significant disruptions to the global economy, as well as businesses and capital markets around the world. In an effort to halt the outbreak of COVID-19, a number of countries, including the United States and Israel where we have key operations, placed significant restrictions on travel, and many businesses announced extended closures. It is unclear how long total or partial shutdowns may last and whether additional shutdowns will be necessary to the extent future outbreaks occur.

**Sales.** We have taken various steps to safeguard employees that have had the effect of curtailing direct sales activities. It may take an extended period after current restrictions end for us to engage potential new customers. We continue to monitor our sales pipeline on a day-to-day basis in order to assess the effect of these limitations on our current sales and our future pipeline development.

**Production and Supply Chain.** We encountered several delays in receiving parts shipments and our freight costs increased during 2020 and 2021. These delays have not affected our product availability as we have increased our inventory levels, but our manufacturing may be impacted in the future due to supply chain delays or adverse impacts on our production capacity due to government directives or health protocols that might impact our production facilities. In addition, given the current limitations on our sales activities, it has become difficult for us to effectively forecast future requirements for our products. Accordingly, there is a greater risk that we may overproduce or underproduce compared to actual sales.

**Negative impacts on our suppliers and employees.** COVID-19 may impact the health of our employees, management, or customers, reduce the availability of our workforce or those of companies with which we do business, or create disruptions in our supply networks. The adverse effects of such events on us may include disruption to our operations, or demand for our products in the short and/or long term.

#### Results of Operations

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

	Year Ended December 31,		
	2019	2020	2021
Revenues	100%	100%	100%
Cost of revenues	64.0%	62.8%	59.4%
Gross profit	36.0%	37.2%	40.6%
Research and development	15.6%	11.6%	8.5%
Marketing and selling	9.1%	6.6%	5.3%
General and administrative	16.0%	11.8%	9.3%
Net loss from sale of fixed assets	0.0%	0.0%	0.0%
Operating income (loss)	(4.7)%	7.2%	17.4%
Financial (expenses) income, net	(0.3)%	0.2%	(0.1)%
Net income (loss) from continuing operations	(5.0)%	7.4%	17.2%
Net income (loss) from discontinued operations	(0.3)%	0.0%	0.0%
Tax benefit	0.0%	0.0%	4.2%
Net income (loss)	(5.3)%	7.4%	21.4%
Net income (loss) attributable to non-controlling interest	(0.7)%	0.0%	0.0%
Net income (loss) attributable to RADA Electronic Industries' shareholders	(4.6)%	7.4%	21.4%

#### Year Ended December 31, 2021 Compared with Year Ended December 31, 2020

*Revenues.* Our revenues increased by 54% to \$117.2 million in 2021 from \$76.2 million in 2020, mainly due to the increase in sales of our radars in the U.S.

*Cost of Revenues.* Cost of revenues were \$69.6 million in 2021 and \$47.9 million in 2020, reflecting the increase in revenues.

*Gross Profit.* Our gross profit increased by 68% to \$47.5 million in 2021 from \$28.3 million in 2020. Our gross profit margin was approximately 40.6% in 2021 and 37.2% in 2020. The increase in our gross profit in 2021 was mainly attributable to the increase in revenues generated from the sale of radars and improved production efficiencies.

*Research and Development Expenses.* Our research and development expenses increased by 13% to \$10.0 million in 2021 from \$8.8 million in 2020. The increase is a result of our strategy to achieve and maintain a technological edge for our products, including the development of our next generation of radars.

*Marketing and Selling Expenses.* Marketing and selling expenses increased by 24% to approximately \$6.2 million in 2021 from \$5.0 million in 2020. We increased our level of marketing and selling expenses primarily due to our efforts to sell our radar products, mainly reflected in the costs incurred as part of our participation in field demonstrations requested by our potential customers as well as a result of our increased revenues.

*General and Administrative Expenses.* General and administrative expenses increased by 22% to approximately \$10.9 million in 2021 from \$9.0 million in 2020. The increase is primarily attributable to the expansion of our infrastructure to support our continued revenue growth as well as to the increase in the non-cash expense associated with employee stock-based compensation.

*Financial Income, Net.* We had net financial expenses of \$0.2 million in 2021 compared to \$0.2 million of net financial income in 2020, reflecting the influence of the changes in the exchange rate between the US dollar and the NIS.

*Tax Benefit.* A deferred tax asset was recorded in the second quarter of 2021 in view of our continued profitability.

#### **Year Ended December 31, 2020 Compared with Year Ended December 31, 2019**

Please see Item 5A of our Form 20-F for the year ended December 31, 2020 filed on March 1, 2021, for this comparison.

#### **Our Location in Israel**

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

#### **Corporate Tax Rate**

Israeli companies were generally subject to corporate tax at a rate of 23% in 2021 and are subject to the same corporate tax rate in 2022. Nevertheless, our effective tax rate, considering the Israeli tax benefits related to our activities, is expected to be 10.2%.

As of December 31, 2021, our net operating loss carry forward for Israeli tax purposes was approximately \$55.6 million and capital loss carry forwards of approximately \$8.8 million. As of December 31, 2021, our U.S. subsidiaries have no U.S. federal carry forward tax losses.

#### **Trade Relations**

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

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



## Impact of Currency Fluctuation and of Inflation

A significant portion of the cost of our Israeli operations, primarily personnel and facility-related, is incurred in NIS. Therefore, our NIS related costs, as expressed in dollars, are influenced by the exchange rate between the dollar and the NIS. In addition, if the rate of inflation in Israel will exceed the rate of devaluation of the NIS in relation to the dollar, or if the timing of such devaluations were to lag considerably behind inflation, our cost as expressed in dollars may increase. NIS linked balance sheet items, may also create foreign exchange gains or losses, depending upon the relative dollar values of the NIS at the beginning and end of the reporting period, affecting our net income and earnings per share. Although we may use hedging techniques, we may not be able to eliminate the effects of currency fluctuations. Therefore, exchange rate fluctuations could have a material adverse impact on our operating results. The caption "Financial expenses, net" in our consolidated financial statements includes the impact of these factors as well as traditional interest income or expense.

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

	Year Ended December 31,				
	2017	2018	2019	2020	2021
NIS vs. U.S. Dollar	(9.8)%	3.2%	(7.8)%	(7.0)%	(3.0)%
Israeli Consumer Price Index	(1.5)%	0.8%	0.6%	(0.7)%	2.5%

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

## Recently Issued Accounting Standards

*New accounting pronouncements not yet effective*

Not applicable.

*Recently Adopted Accounting Pronouncements*

Not applicable.

## B. Liquidity and Capital Resources

We have historically met our financial requirements primarily through cash generated by operations, funds generated by our public offerings, private placements of our Ordinary Shares and debt securities, loans from our principal shareholders, short-term loans and credit facilities from banks, research and development grants from the Government of Israel and the Israel-U.S. Binational Industrial Research and Development Foundation, investment grants for approved enterprise programs and marketing grants from the Government of Israel.

In January 2020, we raised \$25,300,023 in an underwritten public offering of 4,819,052 Ordinary Shares at a price of \$5.25 per share.

In March 2021, we raised \$59,512,500 in an underwritten public offering of 5,175,000 Ordinary Shares at a price of \$11.50 per share.

We had working capital of \$125.9 million as of December 31, 2021 compared with working capital of \$56.8 million at December 31, 2020. Cash and cash equivalents were \$78.7 million as of December 31, 2021 compared to \$36.3 million as of December 31, 2020. The increase in working capital and cash and cash equivalents is due to the proceeds from our March 2021 public offering.

As of December 31, 2021, our banks provided \$0.49 million of guarantees on our behalf, mainly to our customers and suppliers in the ordinary course of business. The guarantees are secured by a first priority charge on our restricted cash total \$0.49 million as of December 31, 2021.

We made capital expenditures of \$6.1 million in the year ended December 31, 2021, primarily for machinery and equipment for use by RTL and our manufacturing facility in Israel. In 2021, we also increased our inventories by \$21.68 million to support our increased level of sales. We currently do not have any significant capital spending or purchase commitments.

#### Cash Flows

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

	Year ended December 31,		
	2019	2020	2021
	(U.S. dollars in thousands)		
Net cash provided by (used in) operating activities	(3,461)	3,614	(4,361)
Net cash used in investing activities	(5,133)	(4,930)	(9,194)
Net cash provided by financing activities	966	24,038	55,937
Increase (decrease) in cash and cash equivalents and restricted cash	(7,628)	22,722	42,382
Cash and cash equivalents and restricted cash at beginning of the year	21,762	14,134	36,856
Cash and cash equivalents and restricted cash at end of the year	14,134	36,856	79,238

#### Continuing Operations

Net cash used by our operating activities was \$4,361,000 in 2021. This was primarily due an increase in inventories of \$21,688,000, an increase in trade receivables, net of \$18,652,000 and deferred tax assets of \$5,681,000, offset by the net income for the year, an increase in trade payables of \$7,458,000, an increase in other accounts payable of \$3,031,000, depreciation and amortization expenses of \$3,660,000 and share based non-cash compensation to employees of \$3,022,000. Net cash provided by operating activities was \$3,614,000 in 2020. This was primarily due the net income for the year, an increase in trade payables of \$1,872,000 and an increase in other accounts payable of \$5,042,000, offset by an increase in inventories of \$12,820,000, depreciation and amortization expenses of \$2,289,000, share based non-cash compensation to employees of \$1,436,000. Further details concerning comparative financial data for 2020, are available in our Form 20-F for the fiscal year ended December 31, 2020.

Net cash used in investing activities was \$9,194,000 in 2021, primarily due to the investment of \$6,170,000 in property, plant and equipment and an investment in privately-held company of \$3,000,000. Net cash used in investing activities was \$4,930,000 in 2020, primarily due to the investment of \$4,853,000 in property, plant and equipment. Further details concerning comparative financial data for 2020, are available in our Form 20-F for the fiscal year ended December 31, 2020.

Net cash provided by financing activities was \$55,937,000 in 2021, reflecting the proceeds from our March 2021 public offering. Net cash provided by financing activities was \$24,038,000 in 2020 reflecting mainly the issuance of Ordinary Shares in a registered direct offering. Further details concerning comparative financial data for 2020, are available in our Form 20-F for the fiscal year ended December 31, 2020.

As a result of the foregoing, at December 31, 2021, we had working capital of \$125,909,000 and cash and cash equivalents of \$78,746,000 as compared to working capital of \$56,775,000 and cash and cash equivalents of \$36,289,000, at December 31, 2020.

We expect to fund our short-term liquidity needs in 2022, including our obligations under, contractual agreements and any other working capital requirements, from our cash and cash equivalents, and operating cash flow. We project that our current cash and cash equivalents and our expected cash flow from operations, will be sufficient to meet our cash requirements in 2022.

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.

The following table summarizes our minimum contractual obligations and commercial commitments, as of December 31, 2021 and the effect we expect them to have on our liquidity and cash flow in future periods:

Contractual Obligations	Payments due by Period				
	(U.S. dollars in thousands)				
	Total	1st year	2nd-3rd year	4th-5th year	After 5th year
Long-term debt obligations	50	-	-	-	50
Operating lease obligations	13,521	2,363	4,043	2,953	4,162
<b>Total</b>	<b>13,571</b>	<b>2,363</b>	<b>4,043</b>	<b>2,953</b>	<b>4,212</b>

We have long-term liabilities for severance pay for certain employees that are calculated pursuant to Israeli law generally based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Under Israeli law, employees are entitled to one month's salary for each year of employment or a portion thereof upon termination of employment in certain circumstances, including the retirement or death of an employee or the termination of employment of an employee without due cause. As of December 31, 2021, our severance pay liability was \$0.8 million.

We also received in 2020 a \$50,000 incentive loan from Germantown County, Maryland based on the recent capital investments by RTL.

Other than liabilities, commitments and obligations that are described in our financial reports, we do not have any material commitments or obligations, including contingent obligations, arising from arrangements with unconsolidated entities or persons that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, cash requirements or capital resources.

### C. Research and Development, Patents and Licenses

#### Research and Development

Our research and development activities focus on improvements to our existing products, the development of complementary products that provide continued support for our current customers and improve our capability to market our products to new customers and to keep a competitive edge over our competitors. In 2021, 2020 and 2019, we incurred \$10.0 million, \$8.8 million and \$6.9 million, respectively, of research and development expenses, net. The vast majority of these expenses are attributable to the development of our radars. In 2022, we intend to continue our investment in the research and development of new products. As of December 31, 2021, we employed 96 engineers (including 2 sub-contractors) who principally concentrate on research and development activities.

The Israel Innovation Authority, or the IIA, encourages research and development by providing grants to Israeli companies, pursuant to the Law for the Encouragement of Industrial Research and Development, 1984, as amended. The terms of such grants prohibit the manufacture of the developed products outside of Israel and the transfer of technologies developed using the grants to any person without the prior written consent of the IIA. During recent years, we developed a new radar sensor for APS, partly financed by the IIA. We received royalty bearing grants of \$1.138 million from the IIA. Pursuant to applicable Israeli law, we are required to pay royalties at the rate of 3% of sales of products developed with certain grants received from the IIA, up to 100% of the amount of such grants, adjusted by the exchange rate with the dollar. As of December 31, 2021, our remaining obligation for royalty payments to the IIA were fully paid.

**D. Trend Information**

In 2021, our revenues increased by approximately 54% compared to our revenues in 2020. Our future revenues will, in great measure, be dependent upon the success of our sales and marketing strategy. We are currently focusing our sales efforts on tactical radar systems for force and critical infrastructure protection solutions and military avionics.

We cannot provide any assurances that we will be successful in meeting our targets in the future. As a result of the unpredictable business environment in which we operate and the potential effects of the spread of COVID-19, we are unable to provide any specific guidance as to sales and profitability trends. However, on January 11, 2022 we provided revenues guidance for 2022 of \$140 million, which guidance is subject to change. If we are unsuccessful in our sales efforts, it is unlikely that we will be able to achieve profitability in the future and we will require additional capital.

Our operations in the last five years were characterized by significant revenue growth, improved gross profits and operating income, substantial investments in research & development capabilities together with geographic expansion into the U.S. that impacted our marketing & selling expenses as well as our general & administrative expenses. During this period, we constantly increased our cash and cash equivalent balances as well as our shareholders' equity.

**Statement of Operations Highlights:**

	Year Ended December 31,				
	2017	2018	2019	2020	2021
	(U.S. dollars in thousands)				
Revenues	\$ 26,182	\$ 28,032	\$ 44,331	\$ 76,217	\$ 117,236
Gross profit	8,341	10,215	15,937	28,335	47,545
Operating income (loss)	1,983	62	(2,103)	22,862	27,187
Income (loss) from before tax continuing operations	1,827	181	(2,224)	5,640	20,199
Income (loss) before tax from discontinued operations	515	(404)	(115)	-	-
Net income (loss)	2,342	(223)	(2,339)	5,640	25,074
Net income (loss) attributable to non-controlling interest from discontinued operations	103	(386)	(309)	-	-
Net income (loss) attributable to RADA Electronic Industries' shareholders	\$ 2,239	\$ 163	\$ (2,030)	\$ 5,640	\$ 25,074

**Balance Sheet Highlights:**

	As of December 31,				
	2017	2018	2019	2020	2021
	(U.S. dollars in thousands)				
Working capital	\$ 25,641	\$ 37,840	\$ 31,805	\$ 56,775	\$ 125,909
Total assets	36,030	53,502	64,915	106,906	203,843
Short-term credits and current maturities of long-term loans	-	-	-	454	-
Shareholders' equity (Excluding Non-controlling interest)	\$ 28,526	\$ 42,213	\$ 41,420	\$ 72,033	\$ 156,066

**E. Critical Accounting Estimates**

The preparation of our financial statements is in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP), which requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, mainly related to trade receivables, inventories, deferred charges, long-lived assets, intangibles and goodwill, revenues, stock-based compensation relating to options and contingencies. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

*Revenue Recognition.* We account for revenue recognition when (or as) it satisfies performance obligations by transferring promised goods or services to its customers in an amount that reflects the consideration the Company expects to receive. In order to achieve that core principle, we apply the following five-step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

The Company generally satisfies performance obligations at a point in time, once the customer has obtained the legal title to the items purchased or service provided. Revenues from long-term and short-term fixed price contracts are usually recognized over time based on the cost-to-cost input method that best depicts the transfer of control over the performance obligation to the customer. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Bill and hold arrangements, whereby the Company produces and sells to customers, and the product is subsequently remains at the customer's request and warehoused at a Company's location for an extended period of time in accordance with directions received from the Company's customers. Even though the product remains in the Company's possession, a sale is recognized at the point in time when the customer obtains control of the product. Control is transferred to the customer in bill and hold transactions when: customer acceptance specifications have been met, legal title has transferred, the customer has a present obligation to pay for the product and the risk and rewards of ownership have transferred to the customer. Additionally, all the following bill and hold criteria have been met in order for control to be transferred to the customer: the customer has requested the product be warehoused, the product has been identified as separately belonging to the customer, the product is currently ready for physical transfer to the customer, and the Company does not have the ability to use the product or direct it to another customer.

*Impairment of Long-Lived Assets.* We are required to assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We assess the impairment of our assets based on a number of factors, including any significant changes in the manner of our use of the respective assets or the strategy of our overall business and significant negative industry or economic trends. Upon determination that the carrying value of a long-lived asset may not be recoverable, based upon a comparison of expected undiscounted future cash flows to the carrying amount of the asset, an impairment charge is recorded in the amount of the carrying value of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2021, 2020 and 2019, no impairment losses were identified.

*Accounting for income taxes.* On January 1, 2007, we adopted FASB ASC 740-10 "Income Taxes," which contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740-10. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement ASC 740-10. We provided a valuation allowance in respect to the deferred tax assets resulting from operating loss carry forwards and other temporary differences.

*Inventory valuation.* The majority of our inventory consists of work in progress, raw materials and components. Inventories are valued at the lower of cost or market. Cost of finished goods is determined on the basis of direct manufacturing costs plus allocable indirect costs representing allocable operating overhead expenses and manufacturing costs. Raw material is valued using the "FIFO" method. We assess the valuation of our inventory on a quarterly basis and periodically write down the value for different finished goods and raw material items based on their potential utilization. If we consider specific inventory to be damaged, we write such inventory down to zero. Inventory write-offs are provided to cover risks arising from slow-moving items, discontinued products, and excess inventories. The process for evaluating these write-offs often requires us to make subjective judgments and estimates concerning the future utilization of the inventory items. Write-offs of inventories for the years ended December 31, 2021, 2020 and 2019 amounted to \$108,000, \$132,000 and \$230,000, respectively. The write-offs were due to slow-moving items and excess inventories and were recorded in cost of revenues.

*Deferred Tax Assets.* The Company assesses its ability to recover its deferred tax assets on an ongoing basis. Significant management judgment is required in determining any valuation allowance recorded against deferred tax assets. In evaluating the ability to recover deferred tax assets, the Company considers available positive and negative evidence including its recent retained earnings, its ability to carry-back losses against prior taxable income and its projected financial results. The Company also considers, commensurate with its objective verifiability, the forecast of future taxable income including the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. A valuation allowance may be recorded in the event it is deemed to be more-likely-than-not that the deferred tax asset cannot be realized. Previously established valuation allowances may also be released in the event it is deemed to be more-likely-than-not that the deferred tax asset can be realized. Any release of valuation allowance will be recorded as a tax benefit which will positively impact the Company's operating results. Management determined on the basis of the quarterly assessment performed at June 30, 2021, that these deferred tax assets are more-likely-than-not to be realized. During the six months ended June 30, 2021, the Company released \$6,038 of valuation allowance and recorded deferred tax assets primarily related to net operating loss carry forwards. As of December 31, 2021, the balance of deferred income tax assets totaled \$5,681.

*Equity investments in privately-held company.* Investments in privately-held company equity securities without readily determinable fair values where the Company does not have control or the ability to exercise significant influence over the operation and financial policies of the issuer of the securities. The Company has elected to measure these investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment in the same issuer. This election is reassessed at each reporting period as to whether the investment continues to qualify for this election. Additionally, at each reporting period, the Company makes a qualitative assessment considering impairment indicators to evaluate whether the investment is impaired.

#### **Explanation of Key Income Statement Items**

*Revenues.* Our revenues are mainly derived from sales of defense electronics and their supporting ground systems.

*Cost of Revenues.* Cost of revenues consists primarily of salaries, raw materials, subcontractor expenses, related depreciation costs, inventories write-downs and overhead allocated to cost of revenues activities.

*Research and Development Expenses, net.* Research and development expenses consist primarily of salaries for research and development personnel, use of subcontractors and other costs incurred in the process of developing product prototypes.

*Marketing and Selling Expenses.* Marketing and selling expenses consist primarily of salaries for marketing and business development personnel, marketing activities, public relations, promotional materials, travel expenses, trade show exhibit expenses, and success fees to business development consultants.

*General and Administrative Expenses.* General and administrative expenses consist primarily of salaries and related expenses for executive, accounting, legal, administrative personnel, professional fees, provisions for doubtful accounts and other general corporate expenses.

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

#### **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:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Yossi Ben Shalom (2)	65	Executive Chairman of the Board of Directors
Prof. Alon Dumanis (1)(2)	71	Independent Director
Joseph Weiss	70	Director
Elan Sigal (1)	54	External Director
Guy Zur (2)	60	Director
Ofra Brown (1)	67	Independent Director
Dov Sella	66	Chief Executive Officer
Avi Israel	57	Chief Financial Officer
Oleg Kiperman	68	Chief Technology Officer
Yaniv Dorani	46	Chief Operating Officer
Max Cohen	48	Chief Executive Officer of RADA Sensors Inc. (3)
William Watson	58	Chief Executive Officer of RADA Technologies LLC
Scott Wood	50	Chief Executive Officer of RADA Innovations LLC

(1) Member of the Audit Committee

(2) Member of the Business Development Committee

(3) RADA Sensors Inc. is the sole shareholder of RADA Technologies LLC and of RADA Innovations LLC

Messrs. Yossi Ben Shalom, Joseph Weiss, Guy Zur and Alon Dumanis and Ms. Ofra Brown will serve as directors until our 2022 annual general meeting of shareholders. Mr. Sigal serves as an external director and currently holds office for a three-year term until August 30, 2022.

In August 2021, Mr. Haim Regev resigned from the Board due to his nomination to serve as the Israeli Ambassador to the EU and the NATO forces.

In October 2021, we announced the appointment of Ms. Ofra Brown as a director, to fill the vacancy resulting from the conclusion of the term of office of Ms. Tal Misch as an external director, on October 21, 2021.

**Yossi Ben Shalom** was appointed as a director of RADA effective as of May 18, 2016 and has served as the Chairman of our Board of Directors since June 14, 2016. Mr. Ben-Shalom was Executive Vice President and Chief Financial Officer of Koor Industries Ltd. from 1998 through to 2000. Before that, Mr. Ben-Shalom served as Chief Financial Officer of Tadiran Ltd. Mr. Ben-Shalom was an active director on numerous boards of directors, including: NICE Systems Ltd. (NASDAQ: NICE) (computer telephony); Machtshim Agan (chemistry); and Investec Bank. He also participated in the creation of TDA VC fund (a joint venture between Templeton and Tadiran) and was an active Chairman of Scopus – a technology company with sales of over \$30 million. Yossi is a co-founder of DBSI Investments Ltd. As such, he currently serves as the Chairman of Shagrir Group Car Services Ltd. (TASE: SHGR), a director of Tadir-Gan (Accurate Products) 1993 Ltd. (TASE: TDFN), a director of ETGA Group Ltd. (TASE: ETGA) and several other privately held companies. Mr. Ben-Shalom holds a B.A. degree in Economics and an M.A. degree in Business Management from Tel Aviv University.

**Prof. Alon Dumanis** has served as a director of RADA since September 16, 2015. He is the Chief Executive Officer of Dumanis Investments Ltd and its affiliates. He is currently chairman of Aposense, Managing Partner of Augmentum Ltd., Co-Chairman and Founder of AIS Applied Industrial Scan Ltd. and a director of Lapidoth Capital (TASE:LAPD) and a director of SirVir Ltd. Between 2001 and 2015, Prof. Dumanis served as the Chief Executive Officer of Docor International Management Ltd. and the General Manager of Crecor B.V. and Docor International B.V., Dutch investment companies, subsidiaries of The Van-Leer Group Foundation. Prof. Dumanis is a former director of El Al Israel Airlines (TASE:LY), Tadiran Communications (TASE:TDCM), Nova Measuring Instruments (NASDAQ:NVMI), Protalix Biotherapeutics (NYSE:PLX), Spectronix (TASE:SPCT), Collplant (TASE:CLPT) and Inventech Investments Co. Ltd. (TASE:IVTC). Previously, Prof. Dumanis served as the Head of Material Command for the Israeli Air Force, where he held the rank of Brigadier General. Prof. Dumanis holds a Doctorate of Philosophy degree in Aerospace Engineering from Purdue University and he is currently a faculty member of the Azrieli College of Engineering Jerusalem.

**Joseph Weiss** has served as director of RADA since December 25, 2019. Mr. Weiss served as the President and Chief Executive Officer of Israel Aerospace Industries Ltd (“IAI”), Israel's largest aerospace corporation and the country's largest high-tech company from 2012 until August 31, 2018. Mr. Weiss joined IAI in 1998, after serving in Israel's navy for 25 years in various field and headquarter positions and retired as a Captain (N). While at IAI Mr. Weiss held a number of managerial positions and was also appointed as Chairman of the Board of ELTA, IAI's subsidiary which provides design, development, manufacture and support of radars and electronic intelligence & defense systems for military, paramilitary and law-enforcement markets. Mr. Weiss also serves as a member of the Board of Governors of the Technion – Israel Institute of Technology in Haifa, as a Director of Bet Shemesh Engines Ltd., a jet engine parts manufacturer, as a director of UVision Air Ltd., UVision designs, manufactures and delivers innovative, cost-effective, unmanned aerial loitering munition systems for customers worldwide, since August 2021, serves as Chairman of the Board of Maris-Tech Ltd. (NASDAQ:MTEK), a provider of remote video, audio, telemetry acquisition, distribution and sharing solutions and products, using high-end digital video, audio and wireless communication technologies. Since January, 2021 Mr. Weiss has served as a director of Spacecom Ltd. (TASE:SCC) and as a director of Blade Ranger Ltd. (TASE:BLRN). Mr. Weiss holds a BSc. degree (with honors) in Mechanical Engineering from the Technion and an MBA degree from Tel Aviv University. He also completed MSc studies at the Technion.



**Elan Sigal** has served as an external director of RADA since August 2013. From October 2019 until May 2020, Mr. Sigal served as the Chief Financial Officer of Scodix, a capital equipment manufacturer in the printing industry. From January 2013 to August 2017, Mr. Sigal served as the Chief Financial Officer of Landa Corporation (Israel), an Israeli company that develops printing systems with proprietary nanography technology for the commercial market. Between January 2008 and December 2012, Mr. Sigal was the Chief Financial Officer of Objet Geometries Ltd., an Israeli company that is engaged in the design, development and manufacture of 3D printers. Between 2004 and December 2007, Mr. Sigal served as the Chief Financial Officer of our company. From May 2000 to December 2003, Mr. Sigal worked as a management consultant in the London office of McKinsey & Co., a leading global management consulting firm. For ten years Mr. Sigal served as a fighter pilot in the Israeli Air Force. Mr. Sigal holds a B.A. degree in Economics from Tel Aviv University.

**Guy Zur** has served as a director of RADA since March 27, 2017. Mr. Zur joined the IDF in 1980 and served in the military until 2016 in a variety of positions retiring with the rank of Major General. Mr. Zur served as the commander of the Ground Forces from 2013 until 2016. Between 2010 and 2013, Mr. Zur served as the Head of the IDF Planning Division. Between 2007 and 2010, Mr. Zur served as the commander of the National Training Center for Ground Trainings (NTC). Mr. Zur is currently the CEO of some Taavura Group subsidiaries, one of the largest logistics and transportation conglomerates in Israel, as well as a technology entrepreneur. Mr. Zur holds an M.B.A. degree from Be'er Sheva University, a B.S. degree in Mechanical Engineering from Tel Aviv University and is an alumnus of the Royal College of Defense Studies, London.

**Ofra Brown** has served as an independent director, since October 22, 2021. Ms. Brown has since 2013 served as Secretary and Corporate Affairs Officer of VIZRT Ltd, a technological leader in the areas of real-time 3D graphics, studio automation, sports analysis and management tools for the media and entertainment industries. She served as chief financial officer of VIZRT from 2001 to 2013, during which time it was a public company traded on the Frankfurt Stock Exchange and on the Oslo Stock Exchange. Ms. Brown has since May 2018 served as an advisory director of Daroma Tzafona, a non-profit organization in Israel, whose mission is to transform the landscape of economic opportunity and bring sustainable socio-economic change in the Negev and Galilee. From 2010 to 2019, she served as an external director of Taldor Computer Systems (1986) Ltd. From 1999 until 2001, Ms. Brown served as the chief financial officer of BVR Technologies Ltd, a company that was traded on NASDAQ. From 1978 through 1998 Ms. Brown served as the Credit Manager for Electronic and Hi-Tech Industries – Industrial Development Bank of Israel Ltd. Ms. Brown previously served as a director of Cimatron Ltd., Investec Underwriting and Consulting (Israel) Ltd. and Pointer Telocation Systems Ltd. Ms. Brown holds a bachelor's degree in economics from Tel Aviv University and a master's degree in business administration from City University of Seattle.

**Dov Sella** has served as our Chief Executive Officer since November 2016 and previously, since July 2007, served as our chief business development officer. Prior to that and from January 2003, Mr. Sella served as our chief operating officer. Mr. Sella has over 30 years of senior management and product development experience. From 1982 until 1997, Mr. Sella worked for Elbit Systems Ltd., a leading Israeli defense contractor. Among his positions at Elbit, he served as director of programs, director of avionics engineering and director of business development. Between 1997 and 2000, Mr. Sella served as executive vice president and vice president of business development and vice president of research and development of UltraGuide Ltd., a medical devices start-up. During the three years prior to joining our company, Mr. Sella was the president of NeuroVision Inc., a medical technology start-up. Since 2021 he has served as a director of RadSee Technologies Ltd. Mr. Sella holds a B.Sc. degree (cum laude) in Computer Engineering from the Technion - Israeli Institute of Technology. Mr. Sella served as a fighter aircraft navigator in the IAF.

**Avi Israel** has served as our Chief Financial Officer since November 2017. Prior to that and since 2014, Mr. Israel has served as the CEO of Logisticare Ltd., a leading Israeli private company providing third-party logistics and supply chain services. Between 2010 and 2013, Mr. Israel served as the CEO of Brimam Communication Ltd., the Israeli importer and distributor of mobile phones and other cellular products manufactured by LG Electronics. Prior to that and since 2004, Mr. Israel served in several positions (including Deputy CEO and Finance Director) of Telit Communications PLC., an IoT (Internet of Things) company listed on AIM in London. Between 1996 and 2004, Mr. Israel served in several positions in the Formula Systems Group, as the VP M&A in charge of the international operations of Matrix Ltd. (TASE: MTRX), one of Israel's largest software solutions companies, as well as the CFO of New Applicom Ltd., an Israeli software company that merged with Matrix. Prior to that and since 1992, Mr. Israel acted as the CFO of Burford International Application Ltd in the United Kingdom. Between 1989 and 1992, Mr. Israel was a certified public accountant with Almagor & Co. (today Deloitte Israel). Mr. Israel also served between the years 2011-2017 as an external director of Analyst Portfolio Management Ltd. and between 2004 and 2010 as an external director of Semicom Industries Ltd. Currently, Mr. Israel is also an external director of Or Shay Ltd., whose bonds are traded on the TASE. Mr. Israel holds a B.A. degree in Economics and Accounting and an M.B.A. degree, both from Bar-Ilan University in Israel. Mr. Israel is a CPA and a member of the Israeli Accountants Council.

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

**Yaniv Dorani** has served as our Chief Operating Officer since March 2020. Mr. Dorani served as the Chief Financial Officer of Pointer Telocation Ltd. (NASDAQ: PNTR) from April 2017 until Pointer's acquisition by PowerFleet Inc. (NASDAQ: PWFL) in October 2019. Mr. Dorani was employed in various capacities with Pointer starting in 2008. Prior to joining Pointer, Mr. Dorani served as Corporate Controller at Medis Technologies and assistant controller at Delta Galil Industries. Before joining Delta Galil, Mr. Dorani was a senior auditor for the accounting firm KPMG in Israel. Mr. Dorani holds a B.A. degree in Economics and Accounting and a M.B.A. degree from Bar Ilan University in Tel Aviv. Mr. Dorani is a Certified Public Accountant in Israel.

**Max Cohen** has served as the Chief Executive Officer of RADA Sensors Inc. since December 2019. Mr. Cohen joined RADA in May 2018 and served as our Executive Vice President for the U.S. market. Mr. Cohen retired from the Israeli Defence Forces (IDF) in March 2018 after 26 years of service. Between 2013 to 2017, Mr. Cohen served as the head of the Sky Picture Department in the Israeli Air Force, during which time he led the development of the air picture command and control systems (C2) and the air picture radars. Between 2016 to 2017 Mr. Cohen initiated and managed a comprehensive national program to deal with the emerging use of commercial and military drones in the battlefield. Mr. Cohen retired with the rank of Lieutenant Colonel (LTC). After his retirement, Mr. Cohen founded FLYON Aerosystems Ltd., a start-up company engaged in the development of a new commercial flying platform. Mr. Cohen holds a BSc. degree in Electrical and Computer Engineering from Ben-Gurion University.

**William Watson** has served as the Chief Executive Officer of RADA Technologies LLC (RTL) since March 2018. Mr. Watson has over 30 years of product and business development experience in the defense market. Prior to joining RADA, Mr. Watson was responsible for worldwide sales and business development for L3 Technologies, GCS between July 2017 and January 2018. Mr. Watson also developed a worldwide sales team for Safran Vectronix in March 2015 and December 2016. He previously spent 27 years with DRS Technologies, a major US defense contractor, in a variety of roles including P&L responsibilities as VP, Radar & Communication Systems; and also VP Naval C4 Systems. During his tenure with DRS, Mr. Watson also held leadership positions in Program Management, Engineering and Business Operations. Mr. Watson holds an M.B.A. degree in Business Administration and Management from Long Island University (C.W. Post) and a Bachelor of Engineering degree (BEng) in Mechanical Engineering from the State University of New York (Stony Brook).

**Scott Wood** has served as the Chief Executive Officer of RADA Innovations LLC (RIL) since October 2020. Mr. Wood joined RTL in April of 2019, serving as Vice President and Chief Engineer for RTL. Prior to joining RTL and from 2014, Mr. Wood worked for Raytheon Space and Airborne Systems, as Senior Director of Engineering. Previously he worked for Lockheed Martin and DRS Leonardo in various senior technical and executive management roles and he is holding experience in the areas of avionics, naval combat and sonar systems, intelligence, weapon and radar systems, satellite and tactical communications, software-defined radios and waveform integration, radio frequency, high-frequency direction finding systems, and electronic warfare/electronic attack systems. Prior to working in the defense industry, Mr. Wood served in the U.S. Navy Submarine Force. He earned a bachelor's degree in Mathematics and Computer Sciences from the State University of New York and a master's degree in Business Administration and Finance from Syracuse University.

## B. Compensation

The following table includes information for the year ended December 31, 2021 concerning the five (5) most highly compensated executive officers of our company, (the figures below reflect the applicable cost of employment on an annual basis):

	Dov Sella <sup>1</sup>	Bill Watson	Max Cohen	Avi Israel	Oleg Kiperman
Annual salary cost and other benefits (\$)²	842,164	522,410	428,315	365,625	396,817
Non-cash employees' options compensation cost for 2021 (\$)³	873,076	183,256	191,878	156,605	123,835
Total (\$)	1,715,240	705,666	620,193	522,230	520,652

(1) Mr. Sella's terms of employment were approved by our shareholders on January 15, 2017, January 16, 2019 and June 4, 2020. As part of his compensation package Mr. Sella is entitled to receive an annual performance bonus of up to 6 monthly salaries in total, which is calculated according to quantitative and qualitative parameters that are determined by our Board of Directors that allocates also a respective weight per each parameter. Effective as of the annual bonus for 2021 and for the duration of Mr. Sella's employment, the formula for payment of the performance bonus is as follows: the respective part of the bonus (in accordance with the proportional weight allocated to such component) will be paid (in full) only if the company, or the CEO, (as applicable) meets at least 85% of the target for the applicable component, provided, however that if the company, or the CEO, as applicable, meets 120% or more of the target for the applicable component, the respective part of the Bonus shall be increased to 120%, and provided further that the maximum annual Bonus payable to the CEO shall not exceed six (6) base salaries. In addition, Mr. Sella received a special bonus equal to three base salaries for 2020. In 2021, Mr. Sella was also granted options to purchase 550,000 additional Ordinary Shares at an exercise price of US\$12.783 per Ordinary Share, which reflects the average closing price of our Ordinary Shares on NASDAQ during the 30 day period before the date of grant. The options are subject to our 102 Option Plan as amended pursuant to the capital gain route provided by Section 102 of the Israeli Income Tax Ordinance.

(2) Includes the gross salary of the five (5) most highly compensated executive officers plus payments of (i) salary bonus; (ii) social benefits such as payments for savings funds, education funds, pension, severance, insurances, social security; (iii) general benefits such as company car (including maintenance and gas) and cell phone; and (iv) option compensation and other benefits pursuant to our company's policy.

(3) Option compensation pursuant to our company's policy. Our 2015 Share Option Plan (as amended from time to time) provides the framework to issue certain awards, e.g., Non Trustee 102 Share Options, 102 Ordinary Income Share Options and 3(9) Share Options, all as defined in our 2015 Share Option Plan. Apart from issuance under the applicable Israeli laws and regulations, the 2015 Share Option Plan enables issuances to grantees in other jurisdictions with respect to which the plan's administrator is empowered to make the requisite adjustments in the plan. In November 2021, the Company's Board of Directors adopted the "2021 Equity Incentive Plan" (the "2021 Plan"), as amended on December 30, 2021. The 2021 Plan authorized the grant of options to purchase Ordinary Shares to officers, directors, consultants and key employees of the Company and its subsidiaries. Awards granted under the plan may be options, restricted shares and restricted share units. As of December 31, 2021 no allocations were made pursuant to 2021 Plan.

Generally, and except as detailed below, all of our directors are entitled to receive directors' fees in the same amount of those payable to our External Director. In addition, On June 23, 2021 our shareholders approved in addition to the directors fees, currently paid to all of our directors (as long as they serve in such position), the additional payments made to Mr. Guy Zur and Mr. Joseph Weiss and the management fees payable to Mr. Ben Shalom, as further described below, Mr. Yossi Ben Shalom will be granted options to purchase 125,000 Ordinary Shares and each of Messrs. Joseph Weiss, Guy Zur, and Alon Dumanis will be granted options to purchase 25,000 Ordinary Shares. All such options are granted pursuant to our 2015 Share Option Plan. These options shall vest over a period of four (4) years as follows: 25% shall vest at the first anniversary of the date of grant thereof and the balance shall vest in 12 equal consecutive quarterly installments of 6.25%. The exercise price of such options is \$12.675, which is equal to the average closing price of our Ordinary Shares in NASDAQ during the 30 days prior to the date of the grant thereof. Based on the Black & Scholes formula, the benefit component per each option is \$5.121, which shall be written off as provision over a period of four (4) years, in accordance with the US GAAP.

Mr. Yossi Ben Shalom has served as the Executive Chairman of our Board of Directors since May 18, 2016. In June 2020 our shareholders approved that effective as of January 1, 2020 we would pay him a monthly payment of NIS 35,000 (approximately \$11,254) in consideration for the time devoted by Mr. Ben Shalom to such position. In 2021, Mr. Ben Shalom was granted options to purchase 125,000 Ordinary Shares at an exercise price of \$12.675 per Ordinary Share, which reflects the average closing price of our Ordinary Shares on NASDAQ during the 30-day period before the date of grant. The options are subject to our 102 Option Plan as amended pursuant to the capital gain route provided by Section 102 of the Israeli Income Tax Ordinance.

Mr. Guy Zur has served as a member of our Board of Directors since March 27, 2017. Mr. Zur is entitled to receive, in addition to his directors' fees, a monthly retainer of NIS 10,000 for business development consulting services. Pursuant to the consultancy agreement with Mr. Zur, both Mr. Zur and our company may terminate the engagement with or without reason by giving 30 days' prior notice. In 2021 Mr. Zur received \$37,135 from us for his consulting services. In 2021, Mr. Zur was granted options to purchase 25,000 Ordinary Shares at an exercise price of \$12.675 per Ordinary Share, which reflects the average closing price of our Ordinary Shares on NASDAQ during the 30-day period before the date of grant. The options are subject to our 102 Option Plan as amended pursuant to the capital gain route provided by Section 102 of the Israeli Income Tax Ordinance.

Mr. Weiss is entitled to receive, in addition to his directors' fees, a monthly retainer for business development and consulting services of NIS 15,000. In addition, Mr. Weiss is also entitled to receive a commission of 2.5% of our net revenues with respect to specific transactions introduced to us by Mr. Weiss and pre-approved by our Audit Committee. Both Mr. Weiss and our company may terminate the services agreement with or without reason by giving a 30 days' prior written notice. The agreement is subject to the approval of our shareholders. In 2021, Mr. Weiss received \$55,745 from us for these services. In 2021, Mr. Weiss was granted options to purchase 25,000 Ordinary Shares at an exercise price of \$12.675 per Ordinary Share, which reflects the average closing price of our Ordinary Shares on NASDAQ during the 30-day period before the date of grant. The options are subject to our 102 Option Plan as amended pursuant to the capital gain route provided by Section 102 of the Israeli Income Tax Ordinance.

In 2021, Mr. Dumanis was granted options to purchase 25,000 Ordinary Shares at an exercise price of US\$12.675 per Ordinary Share, which reflects the average closing price of our Ordinary Shares on NASDAQ during the 30-day period before the date of grant. The options are subject to our 102 Option Plan as amended pursuant to the capital gain route provided by Section 102 of the Israeli Income Tax Ordinance.

During the year ended December 31, 2021, the aggregate compensation paid to our above-mentioned executive officers and directors as a group was approximately \$4,305,091. As of December 31, 2021, the aggregate amount set aside or accrued for pension, retirement, recreation payments and vacation or similar benefits for our directors and executive officers was approximately \$568,930.

During the year ended December 31, 2021, we paid (i) to Mr. Elan Sigal our external director a per-meeting attendance fee of NIS 1,131 (approximately \$364) and an annual fee of NIS 44,276 (approximately \$14,237), (ii) to Ms. Misch (whose term of office as external director has expired on October 21, 2021) a per-meeting attendance fee of NIS 1,131 (approximately \$364) and an annual fee of NIS 44,276 (approximately \$14,237) and (iii) to Ms. Ofra Brown (who was appointed as director on October 25, 2022) a per-meeting attendance fee of NIS 1,131 (approximately \$364) and an annual fee of NIS 44,276 (approximately \$14,237).

Pursuant to the Israeli Companies Law, we have adopted a compensation policy and are required to follow certain approval requirements with respect to the compensation of our directors and executive officers. See below "Board of Directors – Compensation Committee".

We follow Israeli law and practice instead of the requirements of the NASDAQ Stock Market Rules regarding the compensation of our Chief Executive Officer and other executive officers. See Item 16G. "Corporate Governance."

## 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.

### Board of Directors

Our Articles of Association provide for a board of directors consisting no less than four (4) and no more than twelve (12) members, or such other number as may be determined from time to time at a general meeting of shareholders. All the directors in the company must be qualified to serve as a director and the time required for such position, taking into consideration the type and size of the company and the scope and complexity of its operation. The directors must provide the electing general meeting with a detailed declaration as to the compliance with the above-listed requirements. Our board of directors is currently composed of nine (9) directors.

Pursuant to our Articles of Association, our directors, except for External Directors, are elected at the Annual General Meeting by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of directors, and each director generally serves until the Annual General Meeting next following the Annual General Meeting at which such director was appointed, or his earlier vacation of office or removal. Except with respect to the removal of External Directors, the shareholders are entitled to remove any director(s) from office, by a simple majority of the voting power of the company represented at the meeting in person or by proxy and voting thereon. All the members of our board of directors (except the external director 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 annual 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. Our Chairman of the Board has a casting vote. 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 Item 16G. "Corporate Governance."

### External and Independent Directors

*External Directors.* The Israeli Companies Law requires publicly held Israeli companies to appoint at least two external directors. However, pursuant to the Companies Regulations (Relief for Companies whose Securities are listed for trading in Stock Exchange outside of Israel), 5760-2000, or the Relief Regulations, if a company whose securities are listed in certain foreign exchanges, such as the NASDAQ Capital Market, does not have a controlling shareholder it may elect to not be required to appoint External Directors provided that (i) its Board of Directors' composition includes the requisite number of independent directors that satisfy the independence requirement of the foreign law that applies to its listing, (ii) that the composition of its audit and compensation committee comply with the requirements of such foreign law and (iii) if at the time of appointment of any director all the directors are of the same gender, at least one of the directors must be of the other gender. As of October 2021, we have utilized this opt-out from the External Directors requirement.

*Independent Directors.* In general, NASDAQ Stock Market 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 SEC. However, foreign private issuers, such as our company, may follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Stock Market Rules. We do not follow the requirement of the NASDAQ Stock Market Rules to maintain a majority of independent directors on our board and instead follow Israeli law and practice (see Item 16G. "Corporate Governance"). However, we have the mandated three independent directors on our audit committee, in accordance with the rules of the SEC and NASDAQ.

Pursuant to the Israeli Companies Law, a director may be qualified as an independent director if such director is either (i) an external director; or (ii) a director that serves as a board member for less than nine years and the audit committee has approved that he or she meets the independence requirements of an external director. A majority of the members serving on the audit committee and the compensation committee must be independent under the Israeli Companies Law.

Our board of directors has determined that Ms. Brown, Mr. Sigal and Prof. Dumanis qualify as independent directors under the SEC and NASDAQ requirements, as well as qualifying as independent directors under the Israeli Companies Law requirements (taking into consideration the provisions of the Relief Regulations).

We do not follow the requirements of the NASDAQ Stock Market Rules with regard to regularly scheduled meetings of independent directors. Under Israeli law, independent directors are not required to hold executive sessions. See Item 16G, "Corporate Governance."

#### **Committees of the Board of Directors**

*Audit Committee.* Under the Israeli Companies Law, the board of directors of any public company must establish an audit committee. The audit committee must be comprised of at least three directors, the majority of which must be independent directors. Such independent directors must meet all of the standards required of an external director and may not serve as a director for more than consecutive nine years (a cessation of service as a director for up to two years during any nine years period will not be deemed to interrupt the nine years period). However, pursuant to the Relief Regulations, if a company whose securities are listed in certain foreign exchanges, such as the NASDAQ Capital Market, does not have a controlling shareholder it may elect not to appoint external directors provided that (i) its Board of Directors' composition includes the requisite number of independent directors that satisfy the independence requirement of the foreign law that applies to its listing, (ii) that the composition of its audit and compensation committee comply with the requirements of such foreign law and (iii) if at the time of appointment of any director all the directors are of the same gender, at least one of the directors must be of the other gender. As of October 2021, we have utilized this opt-out from the external directors' requirement.

The audit committee may not include the chairman of the board of directors; any director employed by the company or providing services to the company on an ongoing basis; a controlling shareholder or any of the controlling shareholder's relatives; and any director who rendered services to the controlling shareholder or an entity controlled by the controlling shareholder. Any person who is not permitted to be a member of the audit committee may not be present in the meetings of the audit committee unless the chairman of the audit committee determines that such person's presence is necessary in order to present a specific matter. However, an employee who is not a controlling shareholder or relative of a controlling shareholder may participate in the audit committee's discussions but not in any vote, and at the request of the audit committee, the secretary of the company and its legal counsel may be present during the meeting. The chairman of the audit committee must be an external director.

The role of the audit committee, pursuant to the Israeli Companies Law, includes:

- monitoring deficiencies in the management of the company, including in consultation with the independent auditors or the internal auditor, and to advise the board of directors on how to correct such deficiencies. If the audit committee finds a material deficiency, it will hold at least one meeting regarding such material deficiency, with the presence of the internal auditor or the independent auditors but without the presence of the senior management of the company. However, a member of the company's senior management can participate in the meeting in order to present an issue which is under his or her responsibility;
- determining, on the basis of detailed arguments, whether to classify certain engagements or transactions as material or extraordinary, as applicable, and therefore as requiring special approval under the Israeli Companies Law. The audit committee may make such determination according to principles and guidelines predetermined on an annual basis;
- determining if transactions (excluding extraordinary transactions, that is, a transaction other than in the ordinary course of business, other than market terms, or likely to have a material impact on our company's profitability, assets or liabilities) with a controlling shareholder, or in which a controlling shareholder has a personal interest, are required to be rendered pursuant to a competitive procedure;

- deciding whether to approve engagements or transactions that require the audit committee approval under the Israeli Companies Law;
- determining the approval procedure of non-extraordinary transactions, following classification as such by the audit committee, including whether such specific non-extraordinary transactions require the approval of the audit committee;
- examining and approving the annual and periodical working plan of the internal auditor;
- overseeing the company's internal auditing and the performance of the internal auditor; confirm that the internal auditor has sufficient tools and resources at his disposal, taking into account, among other, the special requirements of the company and its size;
- examining the scope of work of the independent auditor and its pay, and bringing such recommendations on these issue before the Board; determining the procedure of addressing complaints of employees regarding shortcomings in the management of the company and ensure the protection of employees who have filed such complaints;
- determining with respect to transactions with the controlling shareholder or in which such controlling shareholder has personal interest, whether such transactions are extraordinary or not, an obligation to conduct competitive process under supervisions of the audit committee or determination that prior to entering into such transactions the company shall conduct other process as the audit committee may deem fit, all taking into account the type of the company. The audit committee may set such qualifications for one year in advance; and
- determining the manner of approval of transactions with the controlling shareholder or in which it has personal interest which (i) are not negligible transactions (pursuant to the committee's determination) and (ii) are not qualified by the committee as extraordinary transactions.

In addition, the NASDAQ Stock Market Rules require us to establish an audit committee comprised of at least three members, all of whom must be financially literate, satisfy the respective "independence" requirements of the SEC and NASDAQ and one of whom must have an accounting or related financial management expertise at senior levels within a company.

Pursuant to the Israeli Companies Law, an audit committee that complies with the requirements of the Israeli Companies Law may act also as a compensation committee. Our board of directors has determined that our audit committee complies with such requirements and therefore, it also serves as our compensation committee.

The current members of our audit and compensation committees are Ms. Ofra Brown, Mr. Elan Sigal and Prof. Alon Dumanis, each of whom satisfies the "independence" requirements of both the SEC 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 is required to appoint a compensation committee, whose role is to: (i) recommend to the board on a compensation policy for office holders and to recommend to the board, once every three years, on the approval of the continued validity of the compensation policy that was determined for a period exceeding three years; (ii) recommend an update the compensation policy from time to time and to examine its implementation; (iii) determine whether to approve the Terms of Service and Employment of Office Holders that require the committee's approval; and (iv) exempt a transaction from the requirement for shareholders' approval. The compensation committee also has oversight authority over the actual terms of employment of directors and officers and may make recommendations to the board of directors and the shareholders (where applicable) with respect to deviation from the compensation policy that was adopted by the company. Under Israeli law, our compensation committee must consist of no less than three members, including at least two independent directors (who must constitute a majority of its members of the committee), and the remainder of the members of the compensation committee must be directors whose terms of service and employment were determined pursuant to the applicable regulations. The same restrictions on the actions and membership in the audit committee apply to the compensation committee with respect to, among other things, the requirement that an independent director serve as the chairman of the committee and the list of persons who may not serve on the committee. As noted above, our board of directors established a compensation committee composed of Ms. Ofra Brown, Mr. Elan Sigal and Prof. Alon Dumanis. In August 2019, our shareholders approved an updated compensation policy for an additional period of three years. In June 2020, our shareholders approved an amendment to the compensation policy (related to the maximum premium payable in connection with our D&O insurance) and in June 2021 our shareholders approved additional amendments to the compensation policy, mainly adopting changes to the performance bonus of the CEO, the maximum per claim and per annum coverage permitted under our D&O insurance and allowing the grant of options to our directors.

## **Board Diversity**

While we do not have a formal policy on diversity, our Board considers diversity to include the skill set, background, reputation, type and length of business experience of our board members, as well as a particular nominee's contribution to that mix. Although there are many other factors, the Board seeks individuals with experience in the defense industry, sales and marketing, legal and accounting skills and board experience.

Nasdaq's Board Diversity Rule requires companies listed on Nasdaq to (i) publicly disclose board-level diversity statistics using a standardized template; and (ii) have, or explain why they do not have, at least two diverse directors. Under the new rule the required disclosure must generally be provided by Nasdaq-listed companies by August 8, 2022. The rule also provides additional flexibility for smaller reporting companies, which can meet the diversity objective by including two female directors, and for all companies with five or fewer directors, which can meet the diversity objective by including one diverse director. Foreign issuers, including foreign private issuers and foreign issuers with principal executive offices located outside the U.S., like our company, must have, or explain why they do not have, at least two board members who are female or have (i) one female director and (ii) one director is LGBTQ+ or an "underrepresented individual" in their home country jurisdiction (i.e., Israel).

The Board Diversity Rule is currently being challenged under constitutional grounds in the U.S. and may be subject to changes.

## **Internal Audit**

The Israeli Companies Law also requires the board of directors of a publicly held 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. Under the Companies Law, the internal auditor may not be an interested party or an office holder, or a relative of any of the foregoing, nor may the internal auditor be the company's independent accountant or its representative. Our internal auditor complies with the requirements of the Israeli Companies Law.

## **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 subordinated 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; Approval of Transactions with Office Holders*

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, including 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, 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.

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 also be required. A director who has a personal interest in a transaction that is considered at a meeting of the board 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.

*Approval of a Compensation Policy for Office Holders*

The Israeli Companies Law and the regulations adopted thereunder require the compensation committee to adopt a policy for director and office holders.

The compensation policy needs to be re-approved every three years by the board of directors, following the recommendation of the compensation committee, and by the company's shareholders, by a Special Majority (as defined below). In the event that the compensation policy is not so approved by the shareholders, the board of directors may nonetheless approve it, provided that the compensation committee and the board of directors, following further discussion of the matter and for specified reasons, determine that the approval of the compensation policy is in the best interests of the company.

Special Majority means: (a) a majority of the shareholders who are not controlling shareholders of the Company and do not have a "Personal Interest" in the approval of the respective resolution who participate in the vote, in person, by proxy or by a voting instrument vote to approve it (abstentions will not be taken into account) or (b) the total number of votes of the shareholders referred to in (a) above that are voted against the proposed resolution does not exceed two percent (2%) of the company's total voting rights.

The compensation policy serves as the basis for decisions concerning the financial terms of employment or engagement of officer holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement.

In addition, compensation of the directors and the Chief Executive Officer is also subject to the approval of the compensation /audit committee, the board of directors and the shareholders at a general meeting. The approval of the compensation of the Chief Executive Officer is subject to the Special Majority requirements

Any deviations from the compensation policy in respect of the compensation of the office holders require the approval of the compensation/audit committee, the board of directors and the shareholders by Special Majority.

Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors require the approval of the compensation/audit committee prior and in addition to the approval of the board of directors. However, if the company duly adopts a compensation plan for its office holders, the approval of the board of directors is not required if the new arrangement only modifies an existing arrangement and the compensation committee determines that such modification is not material.

Pursuant to the Israeli Companies Law, the disclosure requirements regarding personal interests that apply to directors and executive officers also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, but excludes a shareholder whose power derives solely from its position on the board of directors or any other position at the company. A person is presumed to be a "controlling shareholder" if it holds or controls, by itself or together with others, one half or more of any one of the "Means of Control" of the company. "Means of Control" is defined as any one of the following: (i) the right to vote at a General Meeting of the company, or (ii) the right to appoint directors of the company or its Chief Executive Officer. For the purpose of related party transactions, under the Israeli Companies Law, a controlling shareholder is also a shareholder who holds 25% or more of the voting rights if no other shareholder who holds more than 50% of the voting rights. For this purpose, the holdings of all shareholders who have a personal interest in the same transaction will be aggregated. As of Admission, the company does not have a controlling shareholder.

An extraordinary transaction between a public company and a controlling shareholder, or in which a controlling shareholder has a personal interest, including a private placement in which the controlling shareholder has a personal interest, and the terms of engagement of the company, directly or indirectly, with a controlling shareholder or a controlling shareholder's relative (including through a corporation controlled by a controlling shareholder), regarding the company's receipt of services from the controlling shareholder, and if such controlling shareholder is also an office holder of the company, regarding his or her terms of employment, require the approval of a company's audit committee (or compensation committee with respect to compensation arrangements), board of directors and shareholders, in that order. Such transaction must be elected by a majority vote of the Ordinary Shares present and voting at a shareholders' meeting, provided that either: (i) such majority includes at least a majority of votes held by all shareholders who do not have a personal interest in such transaction, present and voting at such meeting (excluding abstentions); or (ii) the total number of votes of shareholders who do not have a personal interest in such transaction voting against the approval of the transaction, does not exceed 2% of the aggregate voting rights in the company.

Pursuant to the Israeli Companies Law, the audit committee of the company should determine in connection with such transaction if it requires rendering pursuant to a competitive procedure or pursuant to other proceedings. See "*Audit Committee*" above.

To the extent that any such transaction with a controlling shareholder or his relative is for a period extending beyond three years, shareholder approval is required once every three years, unless, in respect to certain transactions, the audit committee determines that the longer duration of the transaction is reasonable under the circumstances.

Pursuant to regulations promulgated pursuant to the Israeli Companies Law, a transaction with a controlling shareholder that would otherwise require approval of the shareholders is exempt from shareholders' approval if each of the audit committee and the board of directors determine that the transaction meets certain criteria that are set out in specific regulations promulgated under the Israeli Companies Law. Under these regulations, a shareholder holding at least 1% of the issued share capital of the company may require, within 14 days of the publication of such determination, that despite such determination by the audit committee and the board of directors, such transaction will require shareholder approval under the same majority requirements that otherwise apply to such transactions.

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 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, (i) the acquisition was made in a private placement that received shareholder approval, (ii) 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 (iii) 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. 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. The Israeli Companies Law provides for appraisal rights if any shareholder files a request in court within six months following the consummation of a full tender offer. However, in the event of a full tender offer, the offeror may determine that any shareholder who accepts the offer will not be entitled to appraisal rights. Such determination will be effective only if the offeror or the company has timely published all the information that is required to be published in connection with such full tender offer pursuant to all applicable laws.

#### *Shareholder Duties*

Pursuant to the Israeli Companies Law, a shareholder has a duty to act in good faith and in a customary manner toward the company and other shareholders and to refrain from abusing his or her power with respect to the company, including, among other things, in voting at a general meeting and at shareholder class meetings with respect to the following matters:

- an amendment to the company's articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- interested party transactions that require shareholder approval.

In addition, a shareholder has a general duty to refrain from discriminating against other shareholders.

Certain shareholders also have a duty of fairness toward the company. These shareholders include any controlling shareholder, together with any shareholder who knows that it has the power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or to prevent the appointment of an office holder of the company or exercise any other rights available to it under the company's articles of association with respect to the company. The Israeli Companies Law does not define the substance of this duty of fairness, except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty of fairness.

#### **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:

- a breach of the office holder's duty of care to the company or to another person;
- 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
- a financial liability imposed upon the office holder in favor of another person.

### *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:

- 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;
- 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
- 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:

- 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.
- retroactively indemnify an office holder of the company.

### *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:

- 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 would not prejudice the company;
- 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;
- any act or omission done with the intent to unlawfully yield a personal benefit; or
- any fine or forfeiture imposed on the office holder.

Under the Israeli Companies Law, exculpation, indemnification and insurance of office holders must be approved by the compensation committee and the board of directors (and, with respect to directors and the chief executive officer, by the shareholders). However, under regulations promulgated under the Israeli Companies Law, the insurance of office holders does not require shareholder approval and may be approved by only the compensation committee, if the engagement terms are determined in accordance with the company's compensation policy, which was approved by the shareholders by the same special majority required to approve a compensation policy, provided that the insurance policy is on market terms and the insurance policy is not likely to materially impact the company's profitability, assets or liabilities.

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. Up until August 2017 we maintained directors and officers liability insurance policy with per claim and aggregate coverage limit of \$7.5 million. On August 2017, our Compensation Committee and Board of Directors approved an increase in the per claim coverage and aggregate coverage of up to \$10 million under its directors and officers liability insurance policy Pursuant to additional amendment of our compensation policy adopted by our shareholders on June 23, 2021 the per claim coverage and aggregate coverage have been increased to \$15 million. Pursuant to resolutions adopted by our shareholders on May 15, 2016, we have also entered into agreements with our directors and officeholders providing for their indemnification and exemption from the duty of care.

#### D. Employees

We consider our employees the most valuable asset of our company. We offer competitive compensation and comprehensive benefits to attract and retain our employees. The remuneration and rewards include retention through share-based compensation and performance-based bonuses.

We believe that an engaged workforce is key to maintaining our ability to innovate. We have steadily increased our workforce and have been successful in integrating our new employees and keeping our employees engaged. Investing in our employees' career growth and development is an important focus for us. We offer learning opportunities and training programs including workshops, guest speakers and various conferences to enable our employees to advance in their chosen professional paths.

We are committed to providing a safe work environment for our employees. We have taken necessary precautions in response to the recent COVID-19 outbreak, including offering employees flexibility to work from home, mandatory social distancing requirements in the workplace (such as adding more space between work spaces) and health monitoring for our employees, daily office disinfection and sanitization, provision of hand sanitizer and face masks to all employees, and improvement and optimization of our telecommuting system to support remote work arrangements.

As of December 31, 2021, we employed 242 persons in Israel, of whom 90 persons were employed in research, development and engineering, 92 persons in manufacturing and logistics, 6 persons in sales and marketing, 9 in quality management, 22 in customers support and 23 persons in administration, management and finance. In addition, RTL, RIL and RSI employed 66 persons in the U.S., of whom 27 persons were employed in manufacturing and logistics, 6 persons in sales and marketing, 17 in customers support & engineering and 16 persons in quality management, administration, management and finance.

As of December 31, 2020, we employed 198 persons in Israel, of whom 86 persons were employed in research, development and engineering, 87 persons in manufacturing and logistics, 11 persons in sales and marketing, and 14 persons in administration, management and finance. In addition, RTL and RSI employed 46 persons in the U.S., of whom 29 persons were employed in manufacturing and logistics, 6 persons in sales and marketing, and 10 persons in administration, management and finance.

As of December 31, 2019, we employed 167 persons in Israel, of whom 44 persons were employed in research, development and engineering, 101 persons in manufacturing and logistics, 11 persons in sales and marketing, and 11 persons in administration, management and finance. In addition, RTL employed 25 persons in the U.S., of whom 8 persons were employed in research and development, 1 person in logistics and engineering, 5 persons in sales and marketing, and 11 persons in administration, management and finance.

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 Economy and Industry. Certain provisions of the collective bargaining agreements between the General Federation of Labor in Israel (Histadrut) and the Coordination Bureau of Economic Organizations (including the Industrialists Association) are applicable to our Israeli employees by order of the Israeli Ministry of Economy and Industry. These provisions primarily concern 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.

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; 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. Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information as of March 24, 2022 regarding the beneficial ownership by each of our directors and executive officers:

Name	Number of Ordinary Shares or Options Beneficially Owned (1)	Percentage of Ownership (2)
Yossi Ben Shalom (3)	2,012,629	3.96%
Alon Dumanis	6,250	*
Joseph Weiss	6,250	*
Ofra Brown	-	*
Elan Sigal	-	*
Guy Zur	6,250	*
Dov Sella	450,000	*
Avi Israel	177,500	*
Oleg Kiperman	111,875	*
Yaniv Dorani	112,500	*
Max Cohen	73,750	*
Bill Watson	259,375	*
Scott Wood	15,625	*
<b>All directors and executive officers as a group (13 persons)</b>	<b>3,232,004</b>	<b>6.36%</b>

\* Less than 1%

Except as otherwise indicated, the business address of all directors and executive officers is c/o RADA Electronic Industries Ltd., 7 Giborei Israel Street, Netanya, 4250407, Israel.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC 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 49,609,992 Ordinary Shares issued and outstanding as of March 24, 2022.
- (3) Mr. Yossi Ben Shalom and Mr. Barak Dotan, by virtue of their relationship with and indirect interests in DBSI may be deemed to control DBSI and consequently share the beneficial ownership of the 1,981,379 Ordinary Shares of the company beneficially owned by DBSI (Based on a Schedule 13D/A filed on May 26, 2021 with the SEC by DBSI), including the right to jointly direct the voting of, and disposition of, such shares. Mr. Barak Dotan holds his shares of DBSI through his ownership of B.R.Y.N. Investments Ltd. Mr. Yossi Ben Shalom holds his shares of DBSI through his control of White Condor Holdings Ltd. and Pulpit Rock Investments Ltd. The address of DBSI is 85 Medinat Hayehudim Street, Herzliya 4676670, Israel.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. Major Shareholders**

The following table sets forth certain information as of March 24, 2022, 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)
The Phoenix Holding Ltd. (3)	4,242,814	8.55%
Wellington Group Holdings LLP (4)	3,319,054	6.69%
Franklin Resources Inc. (5)	2,961,648	5.97%

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary Shares relating to options and notes currently exercisable or convertible or exercisable or convertible 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 49,609,992 Ordinary Shares issued and outstanding as of March 24, 2022.

(3) Based on a Schedule 13G/A filed with the SEC on February 7, 2022 by The Phoenix Holdings Ltd. The address of its principal office is Derech Hashalom 53, Givataim, 53454, Israel.

(4) Based on an initial Schedule 13G filed with the SEC on February 4, 2022 by Wellington Group Holdings LLP. The address of its principal office is 280 Congress Street, Boston MA 02210.

(5) Based on an initial Schedule 13G filed with the SEC on February 7, 2022 by Franklin Resources Inc. (together with Templeton Investment Counsel, LLC). The address of the principal office of Franklin Resources is One Franklin Parkway, San Mateo CA 94403.

**Significant Changes in the Ownership of Major Shareholders**

On January 29, 2019 DBSI reported on Schedule 13D/A that it held 9,547,088 Ordinary Shares, constituting 25.1% of our issued and outstanding Ordinary Shares. On September 16, 2019 DBSI reported on Schedule 13D/A that it held 6,821,309 Ordinary Shares, constituting 15.7% of our issued and outstanding Ordinary Shares. On January 11, 2021 DBSI reported on Schedule 13D/A that it held 2,818,182 Ordinary Shares constituting 6.45% of our issued and outstanding Ordinary Shares. On March 15, 2021, DBSI reported on Schedule 13D/A that it held 2,673,205 Ordinary Shares constituting 5.45% of our issued and outstanding Ordinary Shares. On May 26, 2021, DBSI reported on Schedule 13D/A that it held 1,981,379 Ordinary Shares constituting 4.04% of our issued and outstanding Ordinary Shares at the time of this report.

On February 11, 2019, Yelin Lapidot filed a Schedule 13G/A with the SEC reflecting ownership of 3,113,873 Ordinary Shares, or 8.30%, of our Ordinary Shares as of December 31, 2018. On February 10, 2020, Yelin Lapidot filed a Schedule 13G/A with the SEC reflecting ownership of 2,235,362 Ordinary Shares, or 5.82%, of our Ordinary Shares as of December 31, 2019. On February 2, 2021, Yelin Lapidot filed a Schedule 13G/A with the SEC reflecting ownership of 1,305,201 Ordinary Shares, or 2.99%, of our Ordinary Shares as of December 31, 2020.

On August 27, 2019, the Phoenix Holding Ltd., Delek Group Ltd. and Itshak Sharon (Tshuva) (together the "Phoenix Group") reported holdings of 2,144,282 Ordinary Shares or 5.63% of our Ordinary Shares. On February 18, 2020, the Phoenix Group filed a Schedule 13G/A, reflecting holdings of 3,005,340 Ordinary Shares, or 7.89%, of our Ordinary Shares as of December 31, 2019. On December 28, 2020, Phoenix Holding Ltd. filed a Schedule 13G/A, reflecting holdings of 2,177,407 Ordinary Shares or 4.99% of our ordinary shares. On January 19, 2021, Phoenix Holding Ltd. filed a Schedule 13G/A, reflecting holdings of 2,278,224 Ordinary Shares, or 5.22%, of our Ordinary Shares. On February 1, 2021, Phoenix Holding Ltd. filed a Schedule 13G/A, reflecting holdings of 2,178,788 Ordinary Shares, or 4.99%, of our Ordinary Shares as of December 31, 2020. On April 5, 2021, Phoenix Holding Ltd. filed a Schedule 13G/A, reflecting holdings of 2,637,923 Ordinary Shares, or 5.38% of our Ordinary Shares. On February 7, 2022, Phoenix Holding Ltd. filed a Schedule 13G/A, reflecting holdings of 4,242,814 Ordinary Shares, or 8.61% of our Ordinary Shares at the time of this report.

On January 7, 2019, Psagot Investment House Ltd. jointly with Psagot Securities Ltd and Psagot Provident Funds and Pension Ltd. and Psagot Index Funds Ltd. (all are wholly owned subsidiaries of Psagot Investment House Ltd.) filed a Schedule 13G with the SEC reflecting ownership of 2,423,326, or 6.46%, of our Ordinary Shares. On February 19, 2019, Psagot filed a Schedule 13G/A, reflecting ownership of 2,424,883 Ordinary Shares, or 6.46%, of our Ordinary Shares as of December 31, 2018. On February 18, 2020, Psagot filed a Schedule 13G/A, reflecting ownership of 2,179,255 Ordinary Shares, or 5.67%, of our Ordinary Shares as of December 31, 2019. On February 16, 2021, Psagot filed a Schedule 13G/A, reflecting ownership of 1,379,539, or 3.71%, of our Ordinary Shares as of December 31, 2020.

On February 4, 2022, Wellington Group Holdings LLP. filed a Schedule 13G, reflecting holdings of 3,319,054 Ordinary Shares, or 6.72% of our Ordinary Shares at the time of this report.

On February 7, 2022, Franklin Resources Inc. (together with Templeton Investment Counsel, LLC) filed a Schedule 13G, reflecting holdings of 2,961,648 Ordinary Shares, or 6.0% of our Ordinary Shares at the time of this report.

#### **Shareholders Voting Rights**

Our major shareholders do not have different voting rights.

#### **Record Holders**

Based on a review of the information provided to us by American Stock Transfer & Trust Company, our transfer agent, as of March 21, 2022, there were 46 holders of record of our Ordinary Shares, of which 37 record holders holding approximately 47,336,482 of our Ordinary Shares had registered addresses in the U.S., 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 January 16, 2019 we sold 545,454 Ordinary Shares to DBSI in a shareholder approved private placement for approximately \$1.5 million, reflecting a price per share of \$2.75.

#### **C. Interests of Experts and Counsel**

Not applicable.

### **ITEM 8. FINANCIAL INFORMATION**

#### **A. Consolidated Statements and Other Financial Information**

##### **Export Sales**

Export sales (whether direct sales or revenues of RTL, our U.S. subsidiary) constitute a significant portion of our sales. In 2021, we had approximately \$99.4 million of export sales, constituting approximately 85% of our total sales. For further information regarding the allocation of our revenues by geographic region see Item 4 – “*Information on the Company - Geographical Markets.*”

##### **Legal Proceedings**

Currently, we are not a party to any material legal proceedings; however, from time to time we are involved in legal proceedings arising from the operation of our business. Based on the advice of our legal counsel, management believes such current proceedings, if any, will not have a material adverse effect on our financial position or results of operations.

##### **Dividend Distribution Policy**

We have never paid cash dividends to our shareholders. We intend to retain future earnings for use in our business and do not anticipate paying cash dividends on our Ordinary Shares in the foreseeable future. Any future dividend policy will be determined by the board of directors and will be based upon conditions then existing, including our results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions as the board of directors may deem relevant.



According to the Israeli Companies Law, a company may distribute dividends out of its profits, so long as the company reasonably believes that such dividend distribution will not prevent the company from paying all its current and future debts. Profits, for purposes of the Israeli Companies Law, means the greater of retained earnings or earnings accumulated during the preceding two years. In the event cash dividends are declared, such dividends will be paid in NIS.

**B. Significant Changes**

Except as otherwise disclosed in this annual report, no significant change has occurred since December 31, 2021.

**ITEM 9. THE OFFER AND LISTING**

**A. Offer and Listing Details**

Our capital consists of Ordinary Shares, which are traded on the NASDAQ Capital Market and the Tel Aviv Stock Exchange under the symbol "RADA."

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our Ordinary Shares are traded on the NASDAQ Capital Market and the TASE under the symbol "RADA."

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expense of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

**Purposes and Objectives of the Company**

We are registered with the Israeli Companies Registry and have been assigned company number 52-003532-0. Section 2 of our memorandum of association provides that we were established for the purpose of engaging in the business of providing services of planning, development, consultation and instruction in the electronics field. In addition, the purpose of our company is to perform various corporate activities permissible under Israeli law.

### **The Powers of the Directors**

Under the provisions of the Israeli Companies Law, and our articles of association, a director cannot participate in a meeting nor vote on a proposal, arrangement or contract in which he or she is materially interested. In addition, our directors cannot vote compensation to themselves or any members of their body without the approval of our audit committee and our shareholders at a general meeting. The authority of our directors to enter into borrowing arrangements on our behalf is not limited, except in the same manner as any other transaction by us.

Under our articles of association, retirement of directors from office is not subject to any age limitation and our directors are not required to own shares in our company in order to qualify to serve as directors.

### **Rights Attached to Shares**

#### **Annual and Extraordinary General Meetings**

The board of directors must convene an annual meeting of shareholders at least once every calendar year, within 15 months of the last annual meeting. Depending on the matter to be voted upon, notice of at least 21 days or 35 days prior to the date of the meeting is required. Our board of directors may, in its discretion, convene additional meetings as "Extraordinary General Meetings." In addition, the board of directors must convene an Extraordinary General Meeting upon the demand of two of the directors, 25% of the nominated directors, one or more shareholders having at least 5% of the outstanding share capital and at least 1% of the voting power in the company, or one or more shareholders having at least 5% of the voting power in the company.

The quorum required for a General Meeting of shareholders consists of at least two shareholders present in person or represented by proxy who hold or represent, in the aggregate, at least 25% of the voting rights of the issued share capital. A meeting adjourned for lack of a quorum is adjourned to the same day in the following week at the same time and place or any time and place as the directors designate in a notice to the shareholders or to such day and at such time and place as the Chairman of the General Meeting shall determine. At the reconvened meeting, if the original meeting was convened upon the demand of one or more shareholders having at least 5% of the outstanding share capital and at least 1% of the voting power in the company, or one or more shareholders having at least 5% of the voting power in the company, the quorum will be one or more Shareholders, present in person or by proxy, and holding the number of shares required for making such requisition. In any other case the required quorum consists of any two members present in person or by proxy.

**Please refer to Exhibit 2.2 for Items 10.B.3, B.4, B.6, B.7, B.8, B.9 and B.10.**

#### **C. Material Contracts**

We do not deem any individual contract to be a material contract which is not already discussed and filed as an exhibit or in the ordinary course of our business.

#### **D. Exchange Controls**

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our Ordinary Shares.

Non-residents of Israel who purchase our Ordinary Shares will be able to convert dividends, if any, thereon, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our Ordinary Shares to an Israeli resident, into freely repairable dollars, at the exchange rate prevailing at the time of conversion, provided that the Israeli income tax has been withheld (or paid) with respect to such amounts or an exemption certificate has been obtained from the Israel Tax Authority, or the ITA, prior to the payment.

#### **E. Taxation**

The following is a discussion of Israeli and U.S. tax consequences material to us and our shareholders. To the extent that the discussion is based on tax legislation which has not been subject to judicial or administrative interpretation, the views expressed in the discussion might not be accepted by the tax authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.

You are urged to consult your own tax advisors as to the U.S., Israeli or other tax consequences of the purchase, ownership and disposition of Ordinary Shares, including, in particular, the effect of any foreign, state or local taxes.

#### **Israeli Tax Considerations**

The following is a summary of the current tax structure applicable to companies in Israel, with special reference to its effect on us. The following also contains a discussion of the material Israeli tax consequences to purchasers of our Ordinary Shares and Israeli government programs benefiting us. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of this kind of investor include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. Since some parts of this discussion are based on new tax legislation that has not yet been subject to judicial or administrative interpretation, we cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion.

#### *General Corporate Tax Rate*

Generally, Israeli companies are subject to corporate tax on taxable income and capital gains at the rate of 23% as of the 2018 tax year onwards. However, the effective tax rate payable by a company that derives income from a Beneficiary Enterprise, a Preferred Enterprise, or a Preferred Technological Enterprise (as discussed below) may be considerably less.

#### *Law for the Encouragement of Industry (Taxes), 1969*

The Law for the Encouragement of Industry (Taxes), 5729-1969, generally referred to as the Industry Encouragement Law, provides several tax benefits for "Industrial Companies". The Industry Encouragement Law defines an "Industrial Company" as a company resident in Israel and which was incorporated in Israel, of which 90% or more of its income in any tax year, other than income from defense loans, capital gains, interest and dividends, is derived from an "Industrial Enterprise" owned by it and located in Israel or in the "Area," as such terms are defined in the Israeli Income Tax Ordinance [New Version] 5721-1961, or the Ordinance. An "Industrial Enterprise" is defined as an enterprise which is held by an Industrial Company whose principal activity in a given tax year is industrial production.

The following corporate tax benefits, among others, are available to Industrial Companies:

- Amortization over an eight-year period of the cost of purchased know-how and patents and rights (other than goodwill) to use a patent and know-how which are used for the development or advancement of the Industrial Enterprise, commencing from the tax year where the Industrial Enterprise began to use them;
- Accelerated depreciation rates on equipment and buildings;
- Under limited conditions, an election to file consolidated tax returns with related Israeli Industrial Companies; and
- Expenses related to a public offering are deductible in equal amounts from income attributed to the Industrial Enterprise over three years commencing in the year of the offering.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. As of the date of this annual report, we have industrial production activities. Therefore, we qualify as an Industrial Company and may be eligible for the benefits described above. However, we cannot assure that we will qualify as an Industrial Company in the future or that the benefits described above will be available to us.

#### *Tax Benefits and Grants for Research and Development*

Israeli tax law allows, under certain conditions, a tax deduction for expenditures related to scientific research and development projects, including capital expenditures, for the year in which they are incurred. Expenditures are deemed related to scientific research and development projects, if:

- The expenditures are approved by the relevant Israeli government ministry, determined by the field of research; or
- The research and development are for the promotion of the company and is carried out by or on behalf of the company seeking such tax deduction.

The amount of such deductible expenses is reduced by the sum of any funds received through government grants for the financing of such scientific research and development projects. No deduction under these research and development deduction rules is allowed if such deduction is related to an expense invested in an asset depreciable under the general depreciation rules of the Ordinance. Expenditures not so approved are deductible in equal amounts over three years.

From time to time, we may apply to the Israeli Innovation Authority, or the IIA, for approval to allow a tax deduction for research and development expenses during the year incurred. There can be no assurance that such applications will be accepted. For more information about these programs, see "Item 5.C. *Operating and Financial Review and Prospects – Research and Development, Patents and Licenses*" of our annual report on Form 20-F for the year ended December 31, 2021.

#### *Law for the Encouragement of Capital Investments, 5719-1959*

The Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law, provides certain incentives for capital investments in production facilities (or other eligible assets) by "Industrial Enterprises" (as defined under the Investment Law). The benefits available under the Investment Law are subject to the fulfillment of conditions stipulated therein. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, as adjusted by the Israeli consumer price index, and interest, or other monetary penalties.

#### *Tax Benefits Prior and Subsequent to the 2005 Amendment*

Prior to April 1, 2005, the Investment Law provided that capital investments in an Industrial Enterprises (or other eligible assets) may, upon approval by the Investment Center of the Israel Ministry of Economy and Industry, or the Investment Center, be designated as an "Approved Enterprise." Each certificate of approval for an Approved Enterprise relates to a specific investment program, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset. The tax benefits from any certificate of approval relate only to taxable profits attributable to the specific Approved Enterprise.

On April 1, 2005, a comprehensive amendment to the Investment Law came into effect, which we refer to as the 2005 Amendment. The 2005 Amendment included revisions to the criteria for investments qualified to receive tax benefits. The 2005 Amendment does not retroactively apply to investment programs having an Approved Enterprise approval certificate issued by the Investment Center prior to December 31, 2004, unless chosen otherwise. Approved Enterprises are subject to the provisions of the Investment Law prior to its revision, while new investments and tax benefits, if any, will be subject to the provisions of the 2005 Amendment.

Pursuant to the 2005 Amendment, only Approved Enterprises receiving cash grants required the approval of the Investment Center. Approved Enterprises which do not receive benefits in the form of governmental cash grants, such as benefits in the form of tax benefits, are no longer required to obtain this approval. An eligible investment program under the 2005 Amendment qualifies for benefits as a "Beneficial Enterprise." However, a "Beneficial Enterprise" is required to comply with certain requirements and make certain investments as specified in the 2005 Amendment.

In addition, the benefits available to an Approved Enterprise are conditioned upon terms stipulated in the Investment Law and the regulations thereunder and the criteria set forth in the applicable certificate of approval. In March 2019, our investment program was approved as an Approved Enterprise under the Investment Law, which entitles us to an approximately NIS 1,095,000 cash grant. If we do not fulfill the conditions set forth in the certificate of approval, in whole or in part, the benefits may be cancelled and we could be required to refund the amounts of the benefits, with the addition of the Israeli consumer price index linkage differences and interest. We have not yet activated such investment plan and as a result we have not yet received the cash grant. There can be no assurance that we will activate the investment plan or that the cash grant will be available to us if we do.

The extent of the tax benefits available under the 2005 Amendment to qualifying income of a Beneficial Enterprise depend on, among other things, the geographic location of the Beneficial Enterprise in Israel. The location will also determine the period for which tax benefits are available. Such tax benefits include an exemption from corporate tax on undistributed income for a period of between two to 10 years, depending on the geographic location of the Beneficial Enterprise in Israel, and a reduced corporate tax rate of between 10% and the applicable corporate tax rate for the remainder of the benefits period, depending on the level of foreign investment in the company in each year during the benefits period.

A Beneficial Enterprise may, at its discretion, in order to obtain greater certainty, elect to apply for a pre-ruling from the Israeli tax authorities confirming that it is in compliance with the provisions of the amendments in the Investment Law and is therefore entitled to receive such benefits provided under the amendments to Investment Law as set below.

#### *Tax Benefits Under the 2011 Amendment*

The Investment Law was significantly amended as of January 1, 2011, or the 2011 Amendment. The 2011 Amendment introduced new benefits to replace those granted in accordance with the provisions of the Investment Law in effect prior to the 2011 Amendment.

The 2011 Amendment introduced new tax benefits for income generated by a "Preferred Company" through its "Preferred Enterprise," in accordance with the definition of such terms in the Investment Law. The definition of a Preferred Company, includes, inter alia, a company incorporated in Israel that (1) is not wholly owned by a government entity, (2) owns a Preferred Enterprise and (3) is controlled and managed from Israel and is subject to further conditions set forth in the Investment Law. Moreover, a Preferred Company needs to meet certain conditions stipulated in the Investment Law such as being an industrial company (including a minimum threshold of 25% export).

A Preferred Company is entitled to a reduced corporate tax rate of 16% with respect to the income attributed to its Preferred Enterprise, unless the Preferred Enterprise is located in development area "A," in which case the rate will be 7.5%.

Dividends distributed from income which is attributed to a "Preferred Enterprise" will be subject to withholding tax at the following rates: (i) Israeli resident individuals — 20% (iii) non-Israeli residents — 20%, subject to a reduced tax rate under the provisions of an applicable double tax treaty and subject to the receipt in advance of valid certificate from the ITA. If such dividends are paid to an Israeli company, no tax is generally required to be withheld. However, if such dividends are subsequently distributed by such Israeli company to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply.

The provisions of the 2011 Amendment do not apply to existing "Beneficial Enterprises" or "Approved Enterprises," which will continue to be entitled to the tax benefits under the Investment Law, as in effect prior to the 2011 Amendment, unless the company owning such enterprises had made an election to apply the provisions of the 2011 Amendment (such election cannot be later rescinded), which is to be filed with the ITA, not later than the date prescribed for the filing of the company's annual Israeli tax return for the respective year.

#### *Tax Benefits Under the 2017 Amendment*

Additional amendments to the Investment Law became effective in January 2017, or the 2017 Amendment. The 2017 Amendment provides new tax benefits for two types of "Technological Enterprises," as described below, and is in addition to the other existing tax benefit programs under the Investment Law.

The 2017 Amendment provides that a technological company satisfying certain conditions may qualify as a "Preferred Technological Enterprise" and thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as "Preferred Technological Income," as defined in the Investment Law. The tax rate is further reduced to 7.5% for a Preferred Technological Enterprise located in development area "A." In addition, a Preferred Technological Company will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain "Benefited Intangible Assets" (as defined in the Investment Law) to a related foreign company if the Benefited Intangible Assets were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and the sale receives prior approval from the IIA.

The 2017 Amendment further provides that a technological company satisfying certain conditions may qualify as a "Special Preferred Technological Enterprise" and thereby enjoy a reduced corporate tax rate of 6% on "Preferred Technological Income" regardless of the company's geographic location within Israel. In addition, a Special Preferred Technological Enterprise will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain "Benefited Intangible Assets" to a related foreign company if the Benefited Intangible Assets were either developed by an Israeli company or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from the IIA. A Special Preferred Technological Enterprise that acquires Benefited Intangible Assets from a foreign company for more than NIS 500 million may be eligible for these benefits for a period of at least 10 years, subject to certain approvals as specified in the Investment Law.

Dividends distributed by a Preferred Technological Enterprise or a Special Preferred Technological Enterprise, paid out of Preferred Technological Income or income attributed to production are generally subject to withholding tax at the rate of 20% or such lower rate, as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld. However, if such dividends are subsequently distributed by such Israeli company to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply, subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate. If dividends paid out of Preferred Technological Income are distributed to a foreign company and other conditions are met, the withholding tax rate will be 4% (or a lower rate under a tax treaty, if applicable, subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate).

#### ***Taxation of Our Shareholders***

##### ***Capital Gains***

Capital gain tax is imposed on the disposition of capital assets by an Israeli resident for tax purposes, and on the disposition of such assets by a non-Israeli resident for tax purposes if those assets are (i) located in Israel; (ii) are shares or a right to a share in an Israeli resident corporation, or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The Ordinance distinguishes between "Real Capital Gain" and the "Inflationary Surplus." Real Capital Gain is the excess of the total capital gain over Inflationary Surplus. Inflationary Surplus is a portion of the total capital gain which is equivalent to the increase in the relevant asset's cost basis that is attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of disposition. Inflationary Surplus is not currently subject to tax in Israel.

Real Capital Gain accrued by individuals on the sale of our Ordinary Shares will be taxed at the rate of 25%. However, if the individual shareholder is a "Controlling Shareholder" (i.e., a person who holds, directly or indirectly, alone or together with another, 10% or more of one of the Israeli resident company's "means of control," which includes, among other things, the right to receive profits of the company, voting rights, the rights to receive proceeds upon the company's liquidation and the right to appoint a director) at the time of sale or at any time during the preceding 12-month period, such capital gain will be taxed at the rate of 30%. Furthermore, where an individual claimed real interest expenses and linkage differentials on securities, the capital gain on the sale of the securities will be taxed at a rate of 30%. Real Capital Gain derived by corporations will be generally subject to the corporate tax rate (23% in 2018 and thereafter).

Individual and corporate shareholder dealing in securities in Israel are taxed at the tax rates applicable to business income - 23% for corporations in 2018 and thereafter and a marginal tax rate of up to 47% in 2020 and 2021 for individuals, not including excess tax (described below). Notwithstanding the foregoing, Real Capital Gain derived from the sale of our Ordinary Shares by a non-Israeli shareholder may be exempt under the Ordinance from Israeli taxation provided that the following cumulative conditions are met: (i) the shares were purchased upon or after the registration of the shares on the stock exchange, (ii) the seller does not have a permanent establishment in Israel to which the derived capital gain is attributable, and (iii) if the seller is an entity (including a corporation), no more than 25% of its means of control are held, directly and indirectly, by Israeli residents, and there is no Israeli resident that is entitled to 25% or more of the revenues or profits of the entity, directly or indirectly. In addition, such exemption would not be available to a person whose capital gains from selling or otherwise disposing of the securities are deemed to be business income.

In addition, the sale of Ordinary Shares may be exempt from Israeli capital gain tax under the provisions of an applicable tax treaty. For example, the Convention Between the Government of the United States and the Government of Israel with respect to Taxes of Income, as amended, or the U.S.-Israel Double Tax Treaty, exempts U.S. residents for the purposes of the treaty from Israeli capital gain tax in connection with such sale, provided (i) the U.S. resident owned, directly or indirectly, less than 10% of the Israeli resident company's voting power at any time within the 12-month period preceding such sale; (ii) the seller, being an individual, is present in Israel for a period or periods of less than 183 days during the taxable year; and (iii) the capital gain from the sale was not derived through a permanent establishment of the U.S. resident in Israel; (iv) the capital gain arising from such sale, exchange or disposition is not attributed to real estate located in Israel; and (v) the capital gain arising from such sale, exchange or disposition is not attributed to royalties. Eligibility to benefit from tax treaties is conditioned upon the shareholder presenting a withholding certificate issued by the ITA prior to the applicable payment.

Shareholders may be liable for Israeli tax on the sale of their Ordinary Shares and the payment of the consideration may be subject to withholding of Israeli tax. Shareholders may be required to demonstrate that they are exempt from Israeli tax on their capital gains in order to avoid withholding at the time of sale. For example, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the ITA may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by this authority or obtain a specific exemption from the ITA to confirm their status as a non-Israeli resident for tax purposes, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes.

Either the purchaser, the Israeli stockbrokers or financial institutions through which the shares are held is obligated to withhold tax on the amount of consideration paid upon the sale of the shares (or on the Real Capital Gain on the sale, if known) at the rate of 25% in respect of an individual and 23% in respect of a corporation, unless a valid exemption certificate is issued by the ITA prior to the applicable payment.

Upon the sale of securities traded on a stock exchange, a detailed return, including a computation of the tax due, must be filed and an advanced payment must be paid on January 31 and July 31 of every calendar year in respect of sales of securities made within the previous six months. However, if all tax due was withheld according to applicable provisions of the Ordinance and regulations promulgated thereunder the aforementioned return need not be filed and no advance payment must be paid. Capital gain is also reportable on the annual income tax return.

#### **Dividends**

We have never paid cash dividends to our shareholders. A distribution of dividend by our company from income attributed to a Preferred Enterprise to Israeli residents should generally be subject to withholding tax in Israel at the following tax rates: Israeli resident individuals — 20%; Israeli resident companies — 0% (although, if such dividends are subsequently distributed to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided if an applicable tax treaty will apply (subject to the receipt in advance of a valid tax certificate from the ITA allowing for a reduced tax rate)). A distribution of dividends from income, which is not attributed to a Preferred Enterprise to an Israeli resident individual, should generally be subject to tax at a rate of 25% or 30% if the dividend recipient is a "Controlling Shareholder" (as defined above) at the time of distribution or at any time during the preceding 12-month period. If the recipient of the dividend is an Israeli resident corporation, such dividend should be exempt from income tax provided the income from which such dividend is distributed was derived or accrued within Israel (although, if such dividends are subsequently distributed to individuals or a non-Israeli company, withholding tax at a rate of 25% or such lower rate as may be provided if an applicable tax treaty will apply (subject to the receipt in advance of a valid tax certificate from the ITA allowing for a reduced tax rate)).

A non-Israeli resident (either individual or corporation) is generally subject to Israeli tax on the receipt of dividends at the rate of 25% (30% if the dividends recipient is a "Controlling Shareholder" (as defined above), at the time of distribution or at any time during the preceding 12-month period); those rates are subject to a reduced tax rate under the provisions of an applicable double tax treaty (subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate). Under the U.S.-Israel Double Tax Treaty, and subject to the eligibility to the benefits under such treaty, the following withholding rates will apply in respect of dividends distributed by an Israeli resident company to a U.S. resident: (i) if the U.S. resident is a corporation which holds during that portion of the taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding voting shares of the Israeli resident paying corporation and not more than 25% of the gross income of the Israeli resident paying corporation for such prior taxable year (if any) consists of certain type of interest or dividends — the withholding tax rate is 12.5%, (ii) if both the conditions mentioned in (i) above are met and the dividend is paid from an Israeli resident company's income which was entitled to a reduced tax rate applicable to an Approved Enterprise, Beneficial Enterprise or Preferred Enterprise — the withholding tax rate is 15% if a certificate for a reduced withholding tax rate would be provided in advance from the ITA and (iii) in all other cases, the withholding tax rate is 25%. The aforementioned rates under the U.S.-Israel Double Tax Treaty will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel

A non-Israeli resident who receives dividends from which full tax was withheld is generally exempt from the obligation to file tax returns in Israel with respect to such income, provided that (i) such income was not generated from business conducted in Israel by the taxpayer, (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed, and (iii) the taxpayer is not subject to excess tax (described below).

We cannot assure you that we will designate the profits that we may distribute in a way that will reduce shareholders' tax liability.

#### ***Excess Tax***

Individuals who are subject to tax in Israel (whether such individual is an Israeli resident or non-Israeli resident) are also subject to an additional tax on annual income exceeding a certain threshold (NIS 647,640 for 2021 and NIS 663,240 for 2022), which amount is linked to the Israeli consumer price index, at a rate of 3%, including, but not limited to, income derived from dividends, interest and capital gains.

#### ***Foreign Exchange Regulations***

Non-residents for Israeli tax purposes who hold our Ordinary Shares are able to receive any dividends, and any amounts payable upon the dissolution, liquidation and winding up of our affairs, repayable in non-Israeli currency at the rate of exchange prevailing at the time of conversion. However, Israeli income tax is generally required to have been paid or withheld on these amounts. In addition, the statutory framework for the potential imposition of currency exchange control has not been eliminated, and may be restored at any time by administrative action.

#### ***Estate and Gift Tax***

Israeli law presently does not impose estate or gift taxes.

#### **United States Federal Income Taxation**

The following is a general discussion of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our Ordinary Shares. This description addresses only the U.S. federal income tax considerations that may be relevant to U.S. Holders (as defined below) who hold our Ordinary Shares as capital assets. This summary is based on the U.S. Internal Revenue Code of 1986, as amended, (the "Code") Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof and the U.S.-Israel Tax Treaty (the "Treaty"), all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively or to differing interpretations. There can be no assurance that the U.S. Internal Revenue Service ("IRS") will not take a different position concerning the tax consequences of the acquisition, ownership or disposition of our Ordinary Shares or that such a position would not be sustained. This discussion does not address all tax considerations that may be relevant to a U.S. Holder of Ordinary Shares. In addition, this description does not account for the specific circumstances of any particular investor, such as:

- broker-dealers;
- financial institutions or financial services entities;
- certain insurance companies;
- investors liable for alternative minimum tax;



- regulated investment companies, real estate investment trusts, or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt organizations;
- retirement plans;
- S corporations:
- pension funds;
- certain former citizens or long-term residents of the United States;
- non-resident aliens of the United States or taxpayers whose functional currency is not the U.S. dollar;
- persons who hold Ordinary Shares through partnerships or other pass-through entities;
- persons who acquire their Ordinary Shares through the exercise or cancellation of employee stock options or otherwise as compensation for services;
- direct, indirect or constructive owners of investors that actually or constructively own at least 10% of the total combined voting power of our shares or at least 10% of our shares by value; or
- investors holding Ordinary Shares as part of a straddle, appreciated financial position, a hedging transaction or conversion transaction.

If a partnership or an entity treated as a partnership for U.S. federal income tax purposes owns our Ordinary Shares, the U.S. federal income tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. A partnership that owns our Ordinary Shares and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of holding and disposing of Ordinary Shares.

This summary does not address the effect of any U.S. federal taxation (such as estate and gift tax) other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or non-U.S. taxation.

For purposes of this summary the term “U.S. Holder” means a person that is eligible for the benefits of the Treaty and is a beneficial owner of Ordinary Shares who is, for U.S. federal income tax purposes:

- an individual who is a citizen or a resident of the United States;
- a corporation or other entity taxable as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if the trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over the trust’s administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of the trust.

Unless otherwise indicated, it is assumed for the purposes of this discussion that the Company is not, and will not become, a “passive foreign investment company” (“PFIC”) for U.S. federal income tax purposes. See “—*Passive Foreign Investment Companies*” below.

### *Taxation of Distributions*

Subject to the discussion below under the heading “—*Passive Foreign Investment Companies*,” the gross amount of any distributions received with respect to our Ordinary Shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. federal income tax purposes when such distribution is actually or constructively received, to the extent such distribution is paid out of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. Because we do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, you should expect that the entire amount of any distribution will be taxable to you as dividend income. Dividends are included in gross income at ordinary income rates, unless such dividends constitute “qualified dividend income,” as set forth in more detail below. Distributions in excess of our current and accumulated earnings and profits would be treated as a non-taxable return of capital to the extent of your adjusted tax basis in our Ordinary Shares and any amount in excess of your tax basis would be treated as gain from the sale of Ordinary Shares. See “—*Sale, Exchange or Other Disposition of Ordinary Shares*” below for a discussion of the taxation of capital gains. Our dividends would not qualify for the dividends-received deduction generally available to corporations under section 243 of the Code.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received, regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would generally be treated as U.S.-source ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Subject to complex limitations, some of which vary depending upon the U.S. Holder’s circumstances, any Israeli withholding tax imposed on dividends paid with respect to our Ordinary Shares, may be a foreign income tax eligible for credit against a U.S. Holder’s U.S. federal income tax liability (or, alternatively, for deduction against income in determining such tax liability). Israeli taxes withheld in excess of the applicable rate allowed by the Treaty (if any) will not be eligible for credit against a U.S. Holder’s federal income tax liability. The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific classes of income. Dividends paid with respect to our common stock generally will be treated as foreign-source passive category income or, in the case of certain U.S. Holders, general category income for U.S. foreign tax credit purposes. Further, there are special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to a reduced tax rate. A U.S. Holder may be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on our Ordinary Shares if such U.S. Holder fails to satisfy certain minimum holding period requirements or to the extent such U.S. Holder’s position in Ordinary Shares is hedged. An election to deduct foreign taxes instead of claiming a foreign tax credit applies to all foreign taxes paid or accrued in the taxable year. The rules relating to the determination of the foreign tax credit are complex. You should consult with your own tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations (including the PFIC rules discussed below), “qualified dividend income” received by a non-corporate U.S. Holder may be subject to tax at the lower long-term capital gain rates (currently, a maximum rate of 20%). Distributions taxable as dividends paid on our Ordinary Shares should qualify for a reduced rate if we are a “qualified foreign corporation,” as defined in Code section 1(h)(11)(C). We will be a qualified foreign corporation if either: (i) we are entitled to benefits under the Treaty or (ii) our Ordinary Shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Treaty and that our Ordinary Shares currently are readily tradable on an established securities market in the United States. However, no assurance can be given that our Ordinary Shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied, nor does it apply to dividends received from a PFIC (see discussion below), in respect of certain risk-reduction transactions, or in certain other situations. U.S. Holders of our Ordinary Shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

### *Sale, Exchange or Other Disposition of Ordinary Shares*

Subject to the discussion of the PFIC rules below, if you sell or otherwise dispose of our Ordinary Shares (other than with respect to certain non-recognition transactions), you will generally recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in our Ordinary Shares, in each case determined in U.S. dollars. Such gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if you have held the Ordinary Shares for more than one year at the time of the sale or other disposition. Long-term capital gain realized by a non-corporate U.S. Holder is generally eligible for a preferential tax rate (currently at a maximum of 20%). In general, any gain that you recognize on the sale or other disposition of Ordinary Shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of our Ordinary Shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the Ordinary Shares as determined on the settlement date of such exchange. A cash basis U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss, based on any appreciation or depreciation in the value of NIS against the U.S. dollar, which would be treated as ordinary income or loss.

An accrual basis U.S. Holder may elect the same treatment of currency exchange gain or loss required of cash basis taxpayers with respect to a sale or disposition of our Ordinary Shares that are traded on an established securities market, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the IRS. In the event that an accrual basis U.S. Holder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury regulations applicable to foreign currency transactions), such U.S. Holder is required to calculate the value of the proceeds as of the "trade date" and may have a foreign currency gain or loss for U.S. federal income tax purposes in the event of any difference between the U.S. dollar value of NIS prevailing on the trade date and on the settlement date. Any such currency gain or loss generally would be treated as U.S.- source ordinary income or loss and would be subject to tax in addition to the gain or loss, if any, recognized by such U.S. Holder on the sale or disposition of such Ordinary Shares.

#### *Passive Foreign Investment Company Considerations*

Based on the composition of our income, assets (including the value of our goodwill, going-concern value or any other unbooked intangibles, which may be determined based on the price of the ordinary shares), and operations, we believe we will not be classified as a "passive foreign investment company", or PFIC, for the 2021 taxable year. However, because PFIC status is based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for our current taxable year or future taxable years until after the close of the applicable taxable year. Moreover, we must determine our PFIC status annually based on tests that are factual in nature, and our status in the current year and future years will depend on our income, assets and activities in each of those years and, as a result, cannot be predicted with certainty as of the date hereof. If we were a PFIC for any taxable year during which a U.S. Holder owned Ordinary Shares, certain adverse consequences could apply to the U.S. Holder. Specifically, unless a U.S. Holder makes one of the elections mentioned below, gain recognized by the U.S. Holder on a sale or other disposition of Ordinary Shares would be allocated ratably over the U.S. Holder's holding period for the Ordinary Shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability. Further, any distribution in excess of 125% of the average of the annual distributions received by the U.S. Holder on our Ordinary Shares during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described immediately above. In addition, if we were a PFIC for a taxable year in which we pay a dividend or the immediately preceding taxable year, the preferential dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply. If we were a PFIC for any taxable year in which a U.S. Holder owned our shares, the U.S. Holder would generally be required to file annual returns with the IRS, on IRS Form 8621.

If we are treated as a PFIC with respect to you for any taxable year, you will be deemed to own shares in any entities in which we own equity that are also PFICs ("lower tier PFICs"), and you may be subject to the tax consequences described above with respect to the shares of such lower tier PFIC you would be deemed to own.

#### *i. Mark-to-market elections*

If we are a PFIC for any taxable year during which you hold ordinary shares, then instead of being subject to the tax and interest charge rules discussed above, you may make an election to include gain on the ordinary shares as ordinary income under a mark-to-market method, provided that such ordinary shares are "marketable." The ordinary shares will be marketable if they are "regularly traded" on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations, such as the New York Stock Exchange (or on a foreign stock exchange that meets certain conditions). For these purposes, the ordinary shares will be considered regularly traded during any calendar year during which they are traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. Any trades that have as their principal purpose meeting this requirement will be disregarded. However, because a mark-to-market election cannot be made for any lower tier PFICs that we may own, you will generally continue to be subject to the PFIC rules discussed above with respect to your indirect interest in any investments we own that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. As a result, it is possible that any mark-to-market election with respect to the ordinary shares will be of limited benefit.

If you make an effective mark-to-market election, in each year that we are a PFIC, you will include in ordinary income the excess of the fair market value of your ordinary shares at the end of the year over your adjusted tax basis in the ordinary shares. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted tax basis in the ordinary shares over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, in each year that we are a PFIC, any gain that you recognize upon the sale or other disposition of your ordinary shares will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount of previously included income as a result of the mark-to-market election.

Your adjusted tax basis in the ordinary shares will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules discussed above. If you make an effective mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ordinary shares are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. You should consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

ii. Qualified electing fund elections

In certain circumstances, a U.S. equity holder in a PFIC may avoid the adverse tax and interest charge regime described above by making a “qualified electing fund” election to include in income its share of the corporation’s income on a current basis. However, you may make a qualified electing fund election with respect to the ordinary shares only if we agree to furnish you annually with a PFIC annual information statement as specified in the applicable U.S. Treasury regulations. We do not intend to provide the information necessary for you to make a qualified electing fund election if we are classified as a PFIC. Therefore, you should assume that you will not receive such information from us and would therefore be unable to make a qualified electing fund election with respect to any of our ordinary shares were we to be or become a PFIC.

*Additional Tax on Investment Income*

In addition to the income taxes described above, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds may be subject to a 3.8% Medicare contribution tax on net investment income, which includes dividends and capital gains from the sale or exchange of our Ordinary Shares.

*Backup Withholding and Information Reporting*

Payments in respect of our Ordinary Shares may be subject to information reporting to the IRS and to U.S. backup withholding tax at the rate (currently) of 24%. Backup withholding will not apply, however, if you (i) fall within certain exempt categories and demonstrate the fact when required or (ii) furnish a correct taxpayer identification number and make any other required certification.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder’s U.S. tax liability. A U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

U.S. citizens and individuals taxable as resident aliens of the United States that (i) own "specified foreign financial assets" (as defined in Section 6038D of the Code and the regulations thereunder) with an aggregate value in a taxable year in excess of certain thresholds (as determined under rules in Treasury regulations) and (ii) are required to file U.S. federal income tax returns generally will be required to file an information report with respect to those assets with their tax returns. IRS Form 8938 has been issued for that purpose. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, foreign stocks held directly, and interests in foreign estates, foreign pension plans or foreign deferred compensation plans. Under those rules, our Ordinary Shares, whether owned directly or through a financial institution, estate or pension or deferred compensation plan, would be "specified foreign financial assets." Under Treasury regulations, the reporting obligation applies to certain U.S. entities that hold, directly or indirectly, specified foreign financial assets. Penalties can apply if there is a failure to satisfy this reporting obligation. In addition, in the event a U.S. Holder that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such U.S. Holder for the related tax year may not close until three years after the date that the required information is filed. A U.S. Holder is urged to consult the U.S. Holder's tax advisor regarding the reporting obligation.

Any U.S. Holder who acquires more than \$100,000 of our Ordinary Shares or holds 10% or more of our Ordinary Shares by vote or value may be subject to certain additional U.S. information reporting requirements.

**The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our Ordinary Shares. You should consult your tax advisor concerning the tax consequences of your particular situation.**

#### **F. Dividend and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

We are subject to certain of the reporting requirements of the Exchange Act, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, and transactions in our equity securities by our officers and directors are exempt from reporting and the "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file with the SEC an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also submit to the SEC reports on Form 6-K containing (among other things) press releases and unaudited financial information. We post our annual report on Form 20-F on our website ([www.rada.com](http://www.rada.com)) promptly following the filing of our annual report with the SEC. The information on our website is not incorporated by reference into this annual report.

The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system.

The documents concerning our company that are referred to in this annual report may also be inspected at our offices located at: 7 Giborei Israel Street, Netanya 4250407, P.O. Box 8606, Israel.

#### **I. Subsidiary Information**

Not applicable.

### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS**

#### **Interest Rate Risk**

We currently do not invest in or otherwise hold, for trading or other purposes, any financial instruments subject to market risks. Generally, we pay interest on our credit facilities and short-term loans based on Libor, for dollar-denominated loans. As a result, changes in the general level of interest rates may affect the amount of interest payable by us under these facilities.

### **Foreign Currency Exchange Risk**

The depreciation of the NIS against the dollar has the effect of reducing the dollar amount of any of our expenses or liabilities which are payable in NIS (unless such expenses or payables are linked to the dollar). As of December 31, 2021, we had liabilities payable in NIS which are not linked to the dollar in the amount of \$17.9 million and cash and receivables in the amount of \$10.1 million denominated in NIS. Accordingly, 1% appreciation of the NIS against the dollar would increase our financing expenses by approximately \$77,801. A 1% depreciation of the NIS against the dollar would decrease our financing expenses by the same amount. However, the amount of liabilities payable and/or cash and receivables in NIS is likely to change from time to time.

Because exchange rates between the NIS and the dollar fluctuate continuously, exchange rate fluctuations and especially larger periodic devaluations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reported in our consolidated financial statements in continuing operations.

### **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

### **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

### **ITEM 15. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

Our management, including our Chief Executive Officer, and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2021. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer, have concluded that, as of December 31, 2021, our company's disclosure controls and procedures are effective.

#### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our management, including our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of the end of the period covered by this report.

Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2021. Notwithstanding the foregoing, there can be no assurance that our internal control over financial reporting will detect or uncover all failures of persons within the Company to comply with our internal procedures, as all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements.

## Attestation Report of the Registered Public Accounting Firm

The attestation report of Kost Forer Gabbay & Kasierer, a member of EY Global, an independent registered public accounting firm in Israel, on our management's assessment of our internal control over financial reporting as of December 31, 2021 is provided on page F-4, as included under Item 18 of this annual report.

## Changes in Internal Control over Financial Reporting

Based on the evaluation conducted by our Chief Executive Officer and our Chief Financial Officer pursuant to Rules 13a-15(d) and 15d-15(d) under the Exchange Act, our management has concluded that there was no change in our internal control over financial reporting that occurred during the year ended December 31, 2021 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 16. RESERVED.

### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Ms. Ofra Brown, Mr. Elan Sigal and Prof. Alon Dumanis, our external/independent directors, within the meaning of the Israeli Companies Law, and independent directors, as defined by the SEC and NASDAQ, meet the definition of an audit committee financial experts, as defined by rules of the SEC. For a brief listing of their relevant experience, see Item 6.A. "Directors, Senior Management and Employees — Directors and Senior Management."

### ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our Chief Executive Officer and all senior financial officers of our company, including the Chief Financial Officer, Chief Accounting Officer or controller, or persons performing similar functions. Written copies of our code of ethics are available upon request. If we make any substantive amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the codes of ethics, we will disclose the nature of such amendment or waiver on our website.

### ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

#### Independent Registered Public Accounting Firm Fees

The following table sets forth, for each of the years indicated, the fees billed by our principal independent registered public accounting firm, Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global ("EY Israel"). All of such fees were pre-approved by our Audit Committee.

Services Rendered:	Year Ended December 31	
	2020	2021
Audit <sup>(1)</sup>	\$ 145,214	\$ 171,272
Audit-related <sup>(2)</sup>	\$ 57,861	\$ 173,280
Tax <sup>(3)</sup>	\$ 86,983	\$ 30,831
Total	\$ 290,058	\$ 375,383

- (1) Audit fees are fees for audit services for each of the years shown in this table, including fees associated with the annual audit, services provided in connection with audit of our internal control over financial reporting and audit services provided in connection with other statutory or regulatory filings.
- (2) Audit-related fees relate to assurance and associated services that traditionally are performed by the independence auditor including SEC filings, comfort letters, consents and comment letters in connection with regulatory filings.
- (3) Tax fees are the aggregate fees billed for professional services rendered for tax compliance and tax advice, other than in connection with the audit. Tax compliance involves preparation of original and amended tax returns, tax planning and tax advice.

EY Israel and other EY affiliates did not bill our company for services other than the fees described above for fiscal year 2021 or fiscal year 2020.

## Pre-Approval Policies and Procedures

Our Audit Committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accounting firm, Kost Forer Gabbay & Kasierer, a Member of Ernst & Young Global (“EY Israel”). Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the audit committee’s approval of the scope of the engagement of our independent auditor, or on an individual basis. The policy prohibits retention of the independent public accountants to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act or the rules of the Securities and Exchange Committee, and also requires the Audit Committee to consider whether proposed services are compatible with the independence of the public accountants.

### ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

### ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

#### Issuer Purchase of Equity Securities

Neither we, nor any “affiliated purchaser” of our company, has repurchased any of our securities during 2021.

### ITEM 16F. CHANGES IN REGISTRANT’S CERTIFYING ACCOUNTANT

None.

### ITEM 16G. CORPORATE GOVERNANCE

Under NASDAQ Stock Market Rule 5615(a) (3), foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of the NASDAQ Stock Market Rules. A foreign private issuer that elects to follow a home country practice instead of any of such NASDAQ rules 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.

We have notified NASDAQ pursuant to Rule 5615(a) (3), that we do not comply with the following Rules and instead follow Israeli law and practice in respect of such Rules:

- The Rule requiring maintaining a majority of independent directors, as defined under the NASDAQ Marketplace Rules. Instead, we will follow Israeli law and practice See above in Item 6C. “Directors, Senior Management and Employees - External and Independent Directors.”
- The Rule requiring that our independent directors have regularly scheduled meetings at which only independent directors are present: instead, we follow Israeli law according to which independent directors are not required to hold executive sessions.
- The Rule regarding independent director oversight of director nominations process for directors. Instead, we follow Israeli law and practice according to which our board of directors recommends directors for election by our shareholders. See above Item 6C. “Directors, Senior Management and Employees - Board Practices - Board of Directors.”
- The requirement to obtain shareholder approval for the establishment or amendment of certain equity-based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company. Under Israeli law and practice, the approval of the board of directors is required for the establishment or amendment of equity-based compensation plans and private placements. For the approvals and procedures required under Israeli law and practice for an issuance that will result in a change of control of the company and acquisitions of the stock or assets of another company, see Item 6C “Directors, Senior Management and Employee - Board Practices - Approval of Related Party Transactions Under Israeli Law - Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders”.



**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable

**ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

**Consolidated Financial Statements**

Index to Financial Statements	F-1
Reports of Independent Registered Public Accounting Firm (PCAOB ID No. 1281)	F-2 - F-5
Consolidated Balance Sheets	F-6 – F-7
Consolidated Statements of Operations	F-8
Consolidated Statements of Changes in Shareholders' Equity	F-9
Consolidated Statements of Cash Flows	F-10 – F-11
Notes to Consolidated Financial Statements	F-12 – F-40

ITEM 19. EXHIBITS

Index to Exhibits

<u>Exhibit</u>	<u>Description</u>
<a href="#">1.1</a>	<a href="#">Memorandum of Association of the Registrant (1)</a>
<a href="#">1.2</a>	<a href="#">Amended and Restated Articles of Association of the Registrant (2)</a>
<a href="#">2.1</a>	<a href="#">Specimen of Share Certificate (3)</a>
<a href="#">2.2</a>	<a href="#">Description of the rights of each class of securities registered under Section 12 of the Securities Exchange Act of 1934 (4)</a>
<a href="#">4.1</a>	<a href="#">Compensation Policy of Office Holders, as amended (5)</a>
<a href="#">4.2</a>	<a href="#">Form of Indemnification Agreement of the Registrant with its officers and directors (6)</a>
<a href="#">4.3</a>	<a href="#">2015 Share Option Plan (7)</a>
<a href="#">4.4</a>	<a href="#">2021 Equity Incentive Plan</a>
<a href="#">8.1</a>	<a href="#">List of Subsidiaries of the Registrant</a>
<a href="#">12.1</a>	<a href="#">Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended</a>
<a href="#">12.2</a>	<a href="#">Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act, as amended</a>
<a href="#">13.1</a>	<a href="#">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</a>
<a href="#">13.2</a>	<a href="#">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</a>
<a href="#">15.1</a>	<a href="#">Consent of Kost Forer Gabbay &amp; Kasierer, a member of Ernst &amp; Young Global</a>
101.INS	Inline XBRL Instance Document (The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.
101.LAB	Inline XBRL Taxonomy Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

(1) Filed as an Exhibit 1.1 to our Annual Report on Form 20-F for the year ended December 31, 2019 and incorporated herein by reference.

(2) Filed as Appendix A to our Proxy Statement on Form 6-K furnished on May 19, 2021 and incorporated herein by reference.

(3) Filed as Exhibit 2.1 to our Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated herein by reference.

(4) Filed as Exhibit 2.2 to our Annual Report on Form 20-F for the year ended December 31, 2019 and incorporated herein by reference.

(5) Filed as an Appendix B to our Proxy Statement on Form 6-K furnished on May 19, 2021 and incorporated herein by reference.

(6) Filed as an Annex B to our Proxy Statement on Form 6-K furnished on April 4, 2016 and incorporated herein by reference.

(7) Filed as Exhibit 4.3 to Registration Statement on Form S-8 filed on August 24, 2016 and incorporated herein by reference.

RADA ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2021  
U.S. DOLLARS IN THOUSANDS  
INDEX

	<u>Page</u>
<a href="#">Reports of Independent Registered Public Accounting Firm (PCAOB ID No. 1281)</a>	F-2 – F-5
<a href="#">Consolidated Balance Sheets</a>	F-6 – F-7
<a href="#">Consolidated Statements of Operations</a>	F-8
<a href="#">Consolidated Statements of Changes in Equity</a>	F-9
<a href="#">Consolidated Statements of Cash Flows</a>	F-10 – F-11
<a href="#">Notes to Consolidated Financial Statements</a>	F-12 – F-40



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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Shareholders and Board of Directors of RADA ELECTRONIC INDUSTRIES LTD.**

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of RADA Electronic Industries Ltd. and subsidiaries (the "Company") as of December 31, 2021 and 2020 and the related consolidated statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 24, 2022 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matter**

The critical audit matter communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

***Valuation of excess and obsolete inventory reserve***

*Description of the Matter*

As described in Note 2 to the consolidated financial statements, the Company's inventories balance was \$48.9 million as of December 31, 2021. The Company measures all inventories' value, including raw materials, finished goods, and spare parts, in each reporting period at the lower of cost or net realizable value. Reserves for potentially excess and obsolete inventory are made based on management's analysis of inventory levels, future sales forecasts, and market conditions.

Auditing the valuation of excess and obsolete inventory reserve involved subjective auditor judgment because management's estimate relies on significant assumptions and judgments about the future salability of the inventory. These assumptions include the assessment by inventory category (finished goods, work-in-process and raw materials) of future usage and market demand for the Company's products. Additionally, management makes qualitative judgments related to slow moving and obsolete inventories.

*How We Addressed the Matter in Our Audit*

We evaluated and tested the design and operating effectiveness of internal controls over the valuation of inventories, including those related to the Company's methodology for valuing specific inventory categories and controls over the significant assumptions and data.

Our substantive audit procedures included, among others, evaluating the reasonableness of the significant assumptions used by management, including those related to forecasted inventory usage. We tested the completeness, accuracy, and relevance of the underlying data used in management's estimate. We performed inquiries with appropriate non-financial personnel including operational employees, regarding slow moving or obsolete inventory items and other factors to corroborate management's assertions regarding qualitative judgments about slow moving and obsolete inventories. We also assessed the historical accuracy of management estimates by comparing the forecasted sales to actual utilization of inventory.

***Valuation of deferred tax asset***

*Description of the Matter*

As discussed in Note 12, as of December 31, 2021, the Company had deferred tax assets related to operating loss carryforwards and temporary differences of \$5,681 thousand. In assessing the ability to realize deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Auditing management's assessment of the realizability of its deferred tax assets involved complex auditor judgment because management's estimate of future taxable income is highly judgmental and based on significant assumptions that may be affected by future market conditions and the Company's performance.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls over management's plan for future realization of deferred tax assets. For example, we tested controls around the determination of key assumptions used in management's projections of future taxable income. To test the deferred income tax asset, our audit procedures included, among others: comparing the assumptions used by management to the Company's approved budget; evaluating management assumptions to develop estimates of future taxable income and tested the completeness and accuracy of the underlying data. For example, we compared the estimates of future taxable income with the actual results of prior periods, as well as management's consideration of other future market conditions. Additionally, we utilized tax professionals to assist us in assessing the application of tax regulations in management's computation; evaluating the application of the relevant accounting standard; retrospectively assessing past management estimations about net deferred tax asset recoverability; comparing the prospective financial information and underlying assumptions to industry and economic trends, changes in the entity's business model, customer base and product mix. In addition, we assessed the adequacy of the related disclosures in the consolidated financial statements.

**Revenue recognition under bill and hold arrangement**

*Description of the Matter*

As discussed in Note 2 to the consolidated financial statements, the Company's entered into bill and hold arrangement. As of December 31, 2021, \$21,000 was recognized under a bill and hold arrangement. We identified the evaluation of revenue recognized under bill and hold arrangement as a critical audit matter because of the complexity from the additional effort required to test the incremental bill and hold revenue recognition criteria. The incremental bill and hold revenue recognition criteria include the evaluation of: 1) the customer business reason for the bill and hold arrangement; 2) the identification of the product as separately belonging to the customer; 3) the product being currently ready for physical transfer to the customer; and 4) the Company's inability to use the product or direct it to another customer.

*How We Addressed the Matter in Our Audit*

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's revenue recognition process, including controls related to bill and hold revenue recognition criteria being met. We examined bill and hold revenue transaction to assess the incremental bill and hold revenue recognition criteria. Specifically, we inspected documentation received from the customer directing the Company to warehouse the products. Additionally, we observed customer owned products to determine they were marked with unique identifiers separating them from Company owned inventory and were ready for physical transfer to the customer upon request. Also, to evaluate that the Company does not have the ability to use the product or direct to another customer, we received confirmation from the customer approving ownership of the products and inspected underlying documentation the bill and hold transactions to determine legal title to the product had transferred to the customer. In addition, we assessed the adequacy of the related disclosures in the consolidated financial statements.

/s/ Kost Forer Gabbay & Kasierer  
Kost Forer Gabbay & Kasierer,  
A Member of Ernst & Young Global

We have served as the Company's auditor since 2003.

Tel-Aviv, Israel  
March 24, 2022

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Stockholders and the Board of Directors of**

**RADA ELECTRONIC INDUSTRIES LTD.**

**Opinion on Internal Control over Financial Reporting**

We have audited RADA Electronic Industries Ltd. and subsidiaries' internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, RADA Electronic Industries Ltd. and subsidiaries (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021, and 2020, the related consolidated statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and our report dated March 24, 2022 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Kost Forer Gabbay & Kasierer  
Kost Forer Gabbay & Kasierer,  
A Member of Ernst & Young Global

Tel-Aviv, Israel  
March 24, 2022

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2021	2020
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 78,746	\$ 36,289
Restricted deposits	492	567
Trade receivables, net	32,747	14,095
Contract assets (Note 4)	930	756
Other accounts receivable and prepaid expenses (Note 5)	1,946	1,637
Inventories, net (Note 6)	48,882	28,783
<b>Total current assets</b>	<b>163,743</b>	<b>82,127</b>
<b>LONG-TERM ASSETS:</b>		
Equity investments in privately-held company (Note 7)	3,000	-
Long-term receivables and other deposits	244	230
Property, plant and equipment, net (Note 8)	19,888	13,968
Deferred tax assets (Note 12)	5,681	-
Operating lease right-of-use asset (Note 3)	11,287	10,581
<b>Total long-term assets</b>	<b>40,100</b>	<b>24,779</b>
<b>Total assets</b>	<b>\$ 203,843</b>	<b>\$ 106,906</b>

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



CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2021	2020
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short term loan	\$ -	\$ 454
Trade payables	19,890	10,603
Other accounts payable and accrued expenses (Note 9)	13,445	9,855
Advances from customers	1,763	2,323
Contract liabilities (Note 4)	474	232
Operating lease short term liabilities (Note 3)	2,262	1,885
<b>Total current liabilities</b>	<b>37,834</b>	<b>25,352</b>
<b>LONG-TERM LIABILITIES:</b>		
Operating lease long-term liabilities (Note 3)	9,160	8,732
Accrued severance-pay and other long-term liability	783	789
<b>Total long-term liabilities</b>	<b>9,943</b>	<b>9,521</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 10)</b>		
<b>EQUITY:</b>		
Share capital (Note 11) - Ordinary shares of NIS 0.03 par value - Authorized: 100,000,000 shares at December 31, 2021 and 2020; Issued and outstanding: 49,402,847 and 43,724,446 at December 31, 2021 and at December 31, 2020 respectively.	489	440
Additional paid-in capital	203,854	144,944
Accumulated deficit	(48,277)	(73,351)
<b>Total equity</b>	<b>156,066</b>	<b>72,033</b>
<b>Total liabilities and equity</b>	<b>\$ 203,843</b>	<b>\$ 106,906</b>

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2021	2020	2019
Revenues	\$ 117,236	\$ 76,217	\$ 44,331
Cost of revenues	69,691	47,882	28,394
Gross profit	47,545	28,335	15,937
Operating costs and expenses:			
Research and development, net	10,014	8,846	6,912
Marketing and selling	6,235	5,017	4,044
General and administrative	10,933	8,972	7,084
Net loss from sale of fixed asset	5	27	-
<u>Total operating costs and expenses</u>	<u>27,187</u>	<u>22,862</u>	<u>18,040</u>
Operating income (loss)	20,358	5,473	(2,103)
Financial (expenses) income, net (Note 13)	(159)	167	(121)
Net income (loss) from continuing operations before Tax	20,199	5,640	(2,224)
Net income (loss) from discontinued operations before Tax	-	-	(115)
Tax benefit (Note 12)	4,875	-	-
Net income (loss)	\$ 25,074	\$ 5,640	\$ (2,339)
Net income (loss) attributable to non-controlling interest	-	-	(309)
Net income (loss) attributable to RADA Electronic Industries' shareholders	25,074	5,640	(2,030)
Basic net income (loss) from continuing operations per Ordinary share	\$ 0.52	\$ 0.13	\$ (0.05)
Diluted net income (loss) from continuing operations per Ordinary share	\$ 0.50	\$ 0.13	\$ (0.05)
Basic and diluted net income (loss) from discontinued operations per Ordinary share	\$ -	\$ -	\$ (0.00)
Basic net income (loss) per Ordinary share	\$ 0.52	\$ 0.13	\$ (0.05)
Diluted net income (loss) per Ordinary share	\$ 0.50	\$ 0.13	\$ (0.05)
Weighted average number of Ordinary shares used for computing basic net income (loss) per share	48,255,097	43,321,058	38,148,756
Weighted average number of Ordinary shares used for computing diluted net income (loss) per share	50,077,416	44,565,379	38,841,866

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands, except share data

	Number of Ordinary shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Non controlling Interest	Total equity
Balance at January 1, 2019	37,516,891	\$ 386	\$ 118,568	\$ 220	\$ (76,961)	\$ (352)	\$ 41,861
Share-based compensation to employees	-	-	1,148	-	-	-	1,148
Issuance of shares	545,455	4	1,496	-	-	-	1,500
Exercise of Option	394,347	4	-	-	-	-	4
Net loss	-	-	-	-	(2,030)	(309)	(2,339)
Transaction with non-controlling interest	-	-	-	(1,195)	-	661	(534)
Other	-	-	-	(220)	-	-	(220)
Balance at December 31, 2019	38,456,693	\$ 394	\$ 121,212	\$ (1,195)	\$ (78,991)	\$ -	\$ 41,420
Share-based compensation to employees	-	-	1,436	-	-	-	1,436
Issuance of shares	4,819,052	41	23,496	-	-	-	23,537
Exercise of Option	448,701	5	(5)	-	-	-	-
Net income	-	-	-	-	5,640	-	5,640
Balance at December 31, 2020	43,724,446	\$ 440	\$ 146,139	\$ (1,195)	\$ (73,351)	\$ -	\$ 72,033
Share-based compensation to employees	-	-	3,022	-	-	-	3,022
Issuance of shares, net	5,175,000	46	55,891	-	-	-	55,937
Exercise of Option	503,401	3	(3)	-	-	-	-
Net income	-	-	-	-	25,074	-	25,074
Balance at December 31, 2021	<u>49,402,847</u>	<u>\$ 489</u>	<u>\$ 205,049</u>	<u>\$ (1,195)</u>	<u>\$ (48,277)</u>	<u>\$ -</u>	<u>\$ 156,066</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2021	2020	2019
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 25,074	\$ 5,640	\$ (2,339)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Short term loan forgiveness	(454)	-	-
Share based compensation to employees	3,022	1,436	1,148
Depreciation	3,660	2,289	1,223
Net loss from sale of fixed asset	5	27	-
Severance pay, net	(6)	(25)	74
Operating lease right-of-use asset	2,296	1,076	551
Increase in deferred tax assets	(5,681)		
Increase in trade receivables, net	(18,652)	(330)	(383)
Operating lease long-term-liabilities	(2,196)	(1,125)	(466)
Increase in other accounts receivable, long-term receivable and prepaid expenses	(298)	(17)	(284)
Decrease (increase) in contract assets	(174)	513	(370)
Increase (decrease) in contract liabilities	242	36	(170)
Increase in inventories	(21,688)	(12,820)	(6,613)
Increase in trade payables	7,458	1,872	1,439
Increase in other accounts payable, accrued expenses, long-term liabilities and advances from customers	3,031	5,042	2,729
<b>Net cash provided by (used in) operating activities</b>	<b>(4,361)</b>	<b>3,614</b>	<b>(3,461)</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	(6,170)	(4,853)	(4,092)
Construction-in-process	-	(94)	(459)
Equity investments in privately-held company	(3,000)	-	-
Disposal of discontinued operations	-	-	(526)
Increase (decrease) in long-term receivables and deposits	(24)	17	(56)
<b>Net cash used in investing activities</b>	<b>(9,194)</b>	<b>(4,930)</b>	<b>(5,133)</b>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2021	2020	2019
<b>Cash flows from financing activities:</b>			
Issuance of Ordinary shares, net	55,937	23,534	1,500
Short-term loan	-	504	-
Transaction with non-controlling interest	-	-	(534)
Net cash provided by financing activities from continuing operations	<u>55,937</u>	<u>24,038</u>	<u>966</u>
Increase (decrease) in cash and cash equivalents and restricted cash	42,382	22,722	(7,628)
Cash and cash equivalents & restricted cash at the beginning of the year	<u>36,856</u>	<u>14,134</u>	<u>21,762</u>
Cash and cash equivalents & restricted cash at the end of the year	<u>\$ 79,238</u>	<u>\$ 36,856</u>	<u>\$ 14,134</u>

	Year ended December 31,		
	2021	2020	2019
<b>(a) Supplemental disclosures of cash flow activities:</b>			
Net cash paid during the year for:			
Income taxes	<u>\$ 107</u>	<u>\$ 27</u>	<u>\$ 17</u>

<b>(b) Non-cash transactions</b>			
Transfer of inventory to property, plant and equipment	<u>\$ 1,589</u>	<u>\$ 1,194</u>	<u>\$ 595</u>
Purchase of property, plant and equipment in credit	<u>\$ 1,826</u>	<u>\$ 1,068</u>	<u>\$ 572</u>

The following table provides a reconciliation of cash and cash equivalents and restricted deposits reported within the consolidated balance sheets that sum to the total of such amounts in the consolidated statements of cash flows:

	December 31,		
	2021	2020	2019
Cash and cash equivalents	\$ 78,746	\$ 36,289	\$ 13,754
Restricted cash	<u>492</u>	<u>567</u>	<u>380</u>
Cash and cash equivalents and restricted cash	<u>\$ 79,238</u>	<u>\$ 36,856</u>	<u>\$ 14,134</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

- a. RADA Electronic Industries Ltd. (the "Company") is a global defense technology company focused on proprietary radar solutions and legacy avionics systems. The Company is a leader in mini-tactical radars, serving attractive, high-growth markets, including critical infrastructure protection, border surveillance, active military protection and counter-drone applications. The Company also specializes in the design, development, production and sales of avionics systems for fighter aircraft and unmanned aerial vehicles ("UAVs").

In January 2018, the Company incorporated RADA Sensors Inc. as a fully owned subsidiary of the Company. As of December 31, 2021, RADA Sensors Inc. is the holder of 100% of the interests in RADA Technologies LLC, also organized in January 2018. At the time of its organization, RADA was the owner of 75% of RADA Technologies LLC. During July 2019, RADA Sensors Inc. acquired the remaining 25% interest in RADA Technologies LLC. Since 2020, RADA Sensors Inc. is the holder of 100% of the interests in RADA Innovations LLC that began its operations in 2021.

The Company is organized and operates as one operating segment.

- b. Discontinued operations

In December 2016, the Company committed to a plan to sell its test and repair services activity (provided through the Company's then 80% owned subsidiary, CACS) in order to focus in its core business. In October 2018, a transaction with a non-controlling interest occurred and as a result, as of December 31, 2018, the Company owned 100% of CACS, which resulted in a \$254 decrease in additional paid in capital.

In December 2018, the Company signed an agreement to sell its ownership interest in CACS for approximately \$1,500. On March 14, 2019, the ownership was transferred to the buyer. As of December 31, 2019, the Company received 100% of the consideration. In 2018, the Company recorded a provision of \$159 for the expected loss resulting from the sale. In 2019, the company recorded an additional expected loss of \$115, mainly due to exchange rate differences relating to the consideration held in a trust account in China, which was included in the net loss from discontinued operations in the consolidated statements of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

The results of the discontinued operations in prior periods' comparable results, assets and liabilities have been retroactively included in discontinued operations as separate line items in the statements of operations and balance sheets, are presented below:

	Year ended December 31,		
	2021	2020	2019
Revenues	\$ -	\$ -	\$ -
Cost of sales	-	-	-
Operating expenses	-	-	-
Operating loss	-	-	-
Net loss	-	-	-
Loss from sale of subsidiary	-	-	(115)
Net loss from discontinued operations	\$ -	\$ -	\$ (115)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Use of estimates:

The preparation of financial statements in conformity with ("US GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Company's management believes that the estimates, judgment and assumptions used are reasonable based upon information available at the time they were made.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Financial statements in U.S. dollars:

The majority of the revenues of the Company and subsidiaries are generated in U.S. dollars. In addition, financing activities are made in U.S. dollars. The Company's management believes that the dollar is the currency of the primary economic environment in which the Company operates. Thus, its functional and reporting currency is the dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are re-measured into U.S. dollars in accordance with ASC 830, "Foreign Currency Matters". All transaction gains and losses of the re-measured monetary balance sheet items are reflected in the statement of operations as financial income or expenses, as appropriate, in the period in which the currency exchange rate changes.

c. Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Inter-company transactions and balances have been eliminated upon consolidation.

d. Cash equivalents:

All highly liquid investments that are readily convertible to cash and are not restricted as to withdrawal or use and the period to maturity of which did not exceed three months at time of deposit, are considered cash equivalents.

e. Restricted deposits:

Restricted cash is invested in short-term bank deposits (less than twelve months), which are mainly used as security for the Company's guarantees to customers and lines of credits with banks. The deposits are in U.S. dollars and bear a variable annual interest of up to 1.2%.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Inventories:

Inventories are stated at the lower of cost or net realizable value. Inventory write-offs are provided to cover risks arising from slow-moving items, excess inventories and for market prices lower than cost (see also Note 6).

Cost is determined as follows:

Raw materials and components - using the FIFO cost method.

Work in progress and finished goods - represents the cost of manufacturing with the addition of allocable indirect manufacturing costs.

g. Property, plant and equipment:

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

	%
Factory and other buildings	4
Machinery and equipment	7 - 33
Office furniture and equipment	6 - 33

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

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

h. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360, "Property, plant and equipment", whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2021, 2020 and 2019, no impairment losses have been identified.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As required by ASC 820, "Fair Value Measurement", the Company applies assumptions that market-place participations would consider in determines the fair value of long-lived assets (or asset group).

i. Research and development costs:

Research and development costs, net of participation grants, include costs incurred for research and development, are charged to the statement of operations as incurred.

The Company received royalty-bearing grants from the Israeli Innovation Authority ("IIA") for the purpose of partially funding research and development projects. The grants are recognized as a deduction from research and development costs incurred (see also Note 9a).

j. Income taxes:

The Company accounts for income taxes in accordance with ASC No. 740, "Income Taxes" ("ASC No. 740"). ASC No. 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined for temporary differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

ASC No. 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes.

The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative basis) likely to be realized upon ultimate settlement.

k. Severance pay:

The Company's agreements with most of its Israeli employees are in accordance with section 14 of the Severance Pay Law - 1963, under which the Company's contributions for severance pay shall be instead of severance compensation. Upon release of the policy to the employee, no additional liability exists between the parties regarding the matter of severance pay and no additional payments will be made by the Company to the employee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's liability for severance pay for its Israeli employees that are not covered in section 14 is calculated pursuant to Israel's Severance Pay Law - 1963, based on the most recent salary of the employees as of the balance sheet date less monthly deposits for insurance policies and/or pension funds. Employees are entitled to one month's salary for each year of employment or a portion thereof.

The carrying value of deposited funds includes profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfilment of the obligations pursuant to Israeli severance pay law or labor agreements.

Severance expense recorded in the statement of operations is net of interest and other income accumulated in the deposits. Severance expense for the years ended December 31, 2021, 2020 and 2019 amounted to \$1,460, \$1,218 and \$951, respectively.

1. Accounting for share-based compensation:

The Company accounts for share-based payment in accordance with ASC 718, "Compensation - Stock Compensation", which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees on the date of grant using an option-pricing model. The value of the portion of the award is recognized as an expense over the requisite service periods in the Company's statement of operations. The Company recognizes compensation expenses for the value of its awards granted based on the straight-line method over the requisite service period of each of the awards.

The fair value for the Company's stock options granted to employees and directors was estimated using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	December 31,		
	2021	2020	2019
Dividend yield	0%	0%	0%
Risk-free interest rate	0.61%	0.52%	1.81%
Expected term (in years)	4.22	4.22	4.22
Volatility	51.06%	55.24%	63%

The dividend yield assumption is based on the Company's historical experience and expectation of future dividend payouts and may be subject to changes in the future.

The computation of expected volatility is based on realized historical share price volatility of the Company's Ordinary shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The risk-free interest rate assumption is the implied yield currently available on the U.S treasury yield zero-coupon issues with a remaining term equal to the expected life term of the Company's options.

The expected term of options granted is based upon historical experience and represents the period of time between when the options are granted and when they are expected to be exercised.

m. Fair value of financial instruments:

The Company measures its financial instruments at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including, for example, the type of investment, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment and the investments are categorized as Level 3.

The carrying amount of cash and cash equivalents, restricted deposits, trade receivables, other accounts receivable, bank credit, trade payables and other accounts payable approximate their fair value due to the short-term maturity of these instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Foreign currency derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments. As of December 31, 2021, and 2020 the fair value of foreign currencies derivatives assets was 137 and 159, respectively.

n. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash, trade receivables and long-term receivables.

The Company's cash and cash equivalents and restricted deposits are mainly held in U.S. dollars with major banks in Israel. Management believes that the financial institutions that hold the Company's investments are institutions with high credit standing, and accordingly, minimal credit risk exists with respect to these investments.

The Company's trade receivables are derived from sales to large and solid organizations located mainly in the United States, Asia, Latin America and Israel. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. The Company is exposed to credit losses primarily through sales to customers. The Company's expected credit loss allowance methodology for accounts receivable is developed using historical collection experience, current and future economic and market conditions and a review of the current status of customers' trade accounts receivables.

o. Equity investments in privately-held company:

Investments in privately-held company equity securities without readily determinable fair values where the Company does not have control or the ability to exercise significant influence over the operation and financial policies of the issuer of the securities. The Company has elected to measure these investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment in the same issuer. This election is reassessed at each reporting period as to whether the investment continues to qualify for this election. Additionally, at each reporting period, the Company makes a qualitative assessment considering impairment indicators to evaluate whether the investment is impaired.

p. Warranty:

In connection with the sale of its products, the Company provides product warranties for periods between one to two years. Based on past experience and engineering estimates, the estimated liability from these warranties is \$288 and \$212 as of December 31, 2021 and 2020, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Revenue recognition:

The Company generates revenues mainly from the sale of products and from long-term fixed price contracts of defense electronics as follows: data recording and management systems, avionics solutions, and avionics for UAVs, and land radar for critical infrastructure protection, border surveillance, active military protection and counter-drone applications. In addition, the Company provides manufacturing, development and product support services.

The Company recognizes revenue when (or as) it satisfies performance obligations by transferring promised goods or services to its customers in an amount that reflects the consideration the Company expects to receive.

The Company applies the following five-step approach:

a) Identify the contract with a customer

A contract with a customer exists when (i) the Company enters into a written agreement with a customer that defines each party's rights regarding the products or services to be transferred and identifies the payment terms related to these products or services, (ii) both parties to the contract are committed to perform their respective obligations, (iii) the contract has commercial substance, and (iv) the Company determines that collection of substantially all consideration for products or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's payment history or, in the case of a new customer, published credit and financial information pertaining to the customer.

b) Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the products or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the product or service either on its own or together with other resources that are readily available from the Company, and are distinct in the context of the contract, whereby the transfer of the products or services is separately identifiable from other promises in the contract.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's contracts usually contain a single performance obligation which includes the sale of product. In situations where the Company's contract includes distinct goods or services that are substantially the same and have the same pattern of transfer to the customer over time, they are recognized as a series of distinct goods or services.

When contracts are modified to account for changes in contract specifications and requirements, the Company consider whether the modification either creates new or changes the existing enforceable rights and obligations. Contract modifications that are for goods or services that are not distinct from the existing contract, due to the significant integration with the original good or service provided, are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price and the Company's measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis. When the modifications include additional performance obligations that are distinct and at a relative stand-alone selling price, they are accounted for as a new contract and performance obligation, which are recognized prospectively.

c) Determine the transaction price

The transaction price is the amount of consideration to which the Company is entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Company usually does not grant its customers with a right to return the products sold. However, in some cases, the arrangements may include penalties if the Company fails to deliver future goods on time. The above is accounted for as variable considerations, which may be considered as adjustments to the transaction price.

As the Company's standard payment terms are less than one year, the Company elected the practical expedient and the contracts have no significant financing component.

d) Allocate the transaction price to performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Stand-alone selling price is the price at which the Company would sell a promised good or service separately to a customer. Stand-alone selling prices are established at contract inception and subsequent changes in transaction price are allocated on the same basis as at contract inception. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative stand-alone selling price basis unless a portion of the variable consideration related to the contract is allocated entirely to a performance obligation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- e) Recognize revenue when or as the Company satisfies a performance obligation

Revenue is recognized based on the transaction price at the time the related performance obligation is satisfied by transferring a promised product or service to a customer.

The Company generally satisfies performance obligations once the customer has obtained the legal title to the items purchased or service provided.

Revenues from long-term and short-term fixed price contracts are usually recognized over time based on the cost-to-cost input method that best depicts the transfer of control over the performance obligation to the customer. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

For contracts with an estimated amortization period of less than one year, the Company elected the practical expedient and expenses incremental costs immediately.

The cost estimation process is based upon the professional knowledge and experience of the Company's engineers, program managers, and financial professionals. Factors considered in estimating the work to be completed and ultimate contract recovery include the availability, productivity, and cost of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any performance delays, the availability and timing of funding from the customer, and the recoverability of any claims included in the estimates to complete.

Changes in estimates of sales, costs, and profits on a performance obligation are recognized using the cumulative catch-up method of accounting, which recognizes in the current period the cumulative effect of the changes in current and prior periods. When estimates of total costs to be incurred exceed estimates of total revenue to be earned on a performance obligation related to a complex, construction-type contract, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined.

Bill and hold arrangements, whereby the Company produces and sells to customers, and the product is subsequently remains at the customer's request and warehoused at a Company's location for an extended period of time in accordance with directions received from the Company's customers. Even though the product remains in the Company's possession, a sale is recognized at the point in time when the customer obtains control of the product. Control is transferred to the customer in bill and hold transactions when: customer acceptance specifications have been met, legal title has transferred, the customer has a present obligation to pay for the product and the risk and rewards of ownership have transferred to the customer. Additionally, all the following bill and hold criteria have been met in order for control to be transferred to the customer: the customer has requested the product be warehoused, the product has been identified as separately belonging to the customer, the product is currently ready for physical transfer to the customer, and the Company does not have the ability to use the product or direct it to another customer.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

*Contract Assets* - Contract assets primarily relate to the Company's rights to consideration for work completed but not billed as of the reporting date when the right to payment is not just subject to the passage of time, including retention amounts. Contract assets are classified as current assets and, in accordance with industry practice, include amounts that may be billed and collected beyond one year due to the long-term nature of many of the Company's contracts. Contract assets are transferred to accounts receivable when the right to consideration becomes unconditional.

*Contract Liabilities* - Contract liabilities primarily consist of advance payments and billings in excess of costs incurred. Advances represent deposits received from customers on an order. Billings in excess of revenues represents milestone billing contracts where the billings of the contract exceed recognized revenues. Such billings are generally not considered a significant financing component, because they are utilized to pay for contract costs within a one-year period. Contract liability amounts are recognized as revenue once the requisite performance progress has occurred.

r. Basic and diluted net income (loss) per share:

Basic net income (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net income (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year in accordance with ASC 260, "Earnings per share".

s. Derivatives and hedging:

The Company accounts for derivatives and hedging based on ASC 815, "Derivatives and hedging", as amended and related Interpretations. ASC 815 requires the Company to recognize all derivatives on the balance sheet at fair value. If a derivative meets the definition of a hedge and is so designated, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings (for fair value hedge transactions) or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings (for cash flow hedge transactions).

If a derivative does not meet the definition of a hedge, the changes in the fair value are included in earnings. Cash flows related to such hedges are classified as operating activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company enters into forward exchange contracts and option contracts in order to limit the exposure to exchange rate fluctuation associated with payroll expenses mainly incurred in NIS. Since the derivative instruments that the Company holds do not meet the definition of hedging instruments under ASC 815, any gain or loss derived from such instruments is recognized immediately as In Financial (expenses) income, net.

As of December 31, 2021 and 2020, the fair value of the outstanding forward contracts was \$137 and \$159, which were recorded in other receivables against Financial (expenses) income, net, respectively.

t. Recently Adopted Accounting Pronouncements:

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes". The amendments in this update remove certain exceptions of Topic 740 including: exception to the incremental approach for intra-period tax allocation when there is a loss from continuing operations and income or gain from other items; exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment; exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary; exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. There are also additional areas of guidance in regards to: franchise and other taxes partially based on income and the interim recognition of enactment of tax laws and rate changes. The provisions of this ASU are effective for years beginning after December 15, 2020. We are currently evaluating the impact of this ASU on our consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3- LEASES

The Company determines if an arrangement is a lease and the lease classification at inception. The right-of-use asset and lease liability are initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate based on the information available at the date of adoption in determining the present value of the lease payments. The Company's incremental borrowing rate is estimated to approximate the interest rate on similar terms and payments and in economic environments where the leased asset is located.

Some leases include one or more options to renew. The exercise of lease renewal options is typically at the Company's sole discretion; therefore, the majority of renewals to extend the lease terms are not included in our right of use assets and lease liabilities as they are not reasonably certain of exercise. The Company regularly evaluates the renewal options, and, when it is reasonably certain of exercise, it will include the renewal period in its lease term. New lease modifications result in remeasurement of the right of use asset and lease liability, which are not accounted as separate lease contract.

Some of the real estate leases contain variable lease payments, including payments based on an index or rate (CPI). Variable lease payments based on an index or rate are initially measured using the index or rate in effect at lease adoption. Additional payments based on the change in an index or rate are recorded as a period expense when incurred.

The Company elected to combine its lease and non-lease components for all of its leases and to not recognize a lease liability and a right-of-use ("ROU") asset on the balance sheet for leases with a term of twelve months or less. The Company recognize the associated lease payments in the consolidated statements of income on a straight-line basis over the lease term.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3-- LEASES (Cont.)

The Company has various operating leases for office space and vehicles that expire through 2022 and 2032. Its lease agreements do not contain any material residual value guarantees or material restrictive covenants. Below is a summary of the Company's operating right-of-use assets and operating lease liabilities as of December 31, 2021:

	December 31, 2021	December 31, 2020
Operating right-of-use assets	11,287	\$ 10,581
Operating lease liabilities, current	2,262	1,885
Operating lease liabilities long-term	9,160	8,732
Total operating lease liabilities	11,422	\$ 10,617
Weighted average remaining lease term (years)	7	8
Weighted average discount rate	2.61%	3.27%

Cash paid for lease expenses during the twelve months ended December 31, 2021, 2020 and 2019 were \$2,094, \$1,508, and \$1,302 respectively. Non-cash transactions recognize in operating assets and liabilities for new leases were \$3,001 and \$4,003, as of December 31, 2021 and 2020, respectively.

Minimum lease payments for the Company's right of use assets over the remaining lease periods as of December 31, 2021, are as follows:

2022	\$ 2,363
2023	2,177
2024	1,866
2025	1,734
2026	1,219
Thereafter	4,162
Total undiscounted lease payments	13,521
Less: Interest	(2,099)
Present value of lease liabilities	\$ 11,422

Operating lease expense for the fiscal years ended Dec 31, 2021, 2020 and 2019 were \$2,520, \$1,867 and \$1,138, respectively, excluding short-term lease costs and variable lease costs, each of which was immaterial for the fiscal years ended December 31, 2021, 2020 and 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4- REVENUES

Contract liabilities include advances from customers, which were presented separately in the Company's consolidated balance sheets as of December 31, 2021 and 2020.

The following table presents the significant changes in the advances from customers balance during the twelve months ended December 31, 2021:

	Year ended December 31,	
	2021	2020
Balance, beginning of the period	\$ 2,323	\$ 1,563
New performance obligations	7,539	1,677
Reclassification to revenue as a result of satisfying performance obligation	(8,099)	(917)
Balance, end of the period	\$ 1,763	\$ 2,323

The Company's unsatisfied performance obligations as of December 31, 2021 and the estimated revenue expected to be recognized in the future related to long-term fixed price contracts amounts to \$930. The Company expects to recognize approximately 100% of this amount as revenues during the next 12 months. The Company elected to apply the optional exemption under ASC 606 not to disclose the remaining performance obligations that relate to contracts with an original expected duration of one year or less for which deferred revenues have not been recorded yet. For information regarding disaggregated revenues, please refer to Note 15.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2021	2020
Prepaid expenses	\$ 1,119	\$ 953
Government authorities	516	216
Advance payments to vendors	93	302
Deposits	81	7
Fair value of the outstanding forward contracts	137	159
	<u>\$ 1,946</u>	<u>\$ 1,637</u>

NOTE 6:- INVENTORIES

	December 31,	
	2021	2020
Raw materials	\$ 39,733	\$ 23,744
Work in progress, net	7,373	3,997
Finished goods	1,776	1,042
	<u>\$ 48,882</u>	<u>\$ 28,783</u>

Write-offs of inventories for the years ended December 31, 2021, 2020 and 2019 amounted to \$108, \$132 and \$230, respectively. The write-offs were due to slow-moving items and excess inventories and were recorded in cost of revenues

NOTE 7:- EQUITY INVESTMENT IN PRIVATELY-HELD COMPANY

In March 2021, the Company signed a share purchase agreement to invest \$3 million, to acquire 24,020 ordinary shares of RadSee Technologies Ltd. ("RadSee"), an early stage advance radar technology company. Additionally, the Company has a 24 month option to acquire an additional 7,409 ordinary shares of RadSee. For the year ended December 31, 2021, the Company has not recognized impairment loss and didn't note observable price changes related to its investments in RadSee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8:- PROPERTY, PLANT AND EQUIPMENT, NET

	December 31,	
	2021	2020
Cost:		
Factory building	\$ 3,797	\$ 1,722
Machinery and equipment *) **)	23,557	16,603
Office furniture and equipment	1,677	1,098
Leaschold improvements	2,914	2,959
	<u>31,945</u>	<u>22,382</u>
Accumulated depreciation:		
Factory building	2,004	1,722
Machinery and equipment **)	9,329	6,170
Office furniture and equipment	350	236
Leaschold improvements	374	286
	<u>12,057</u>	<u>8,414</u>
Depreciated cost	<u>\$ 19,888</u>	<u>\$ 13,968</u>

\*) As of December 31, 2021 and 2020, \$0 and \$94, respectively, relates to construction-in-process of production infrastructure.

\*\*) Capital loss from sale of fixed asset amounted to \$5 and \$27, is due to machinery and equipment sales during 2021 and 2020, respectively.

Depreciation expense amounted to \$3,660, \$2,289 and \$1,223 (offset by depreciation write-offs of \$17, \$4,519 and \$0 mainly due to assets disposals) for the years ended December 31, 2021, 2020 and 2019, respectively.

NOTE 9:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2021	2020
Payroll and related accruals	\$ 8,380	\$ 6,579
Accrued expenses - agents' commissions	1,378	1,094
Accrued expenses	3,687	1,954
Royalties to IIA	-	228
	<u>\$ 13,445</u>	<u>\$ 9,855</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES**

- a. The Company's research and development efforts have been partially financed through royalty-bearing programs sponsored by the IIA. In return for the IIA's participation, the Company is committed to pay royalties at a rate ranging from 3% to 5% of sales of the products whose research was supported by grants received from the IIA, up to 100% of the amount of such participation received linked to the U.S. dollar. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales, no payment is required.

The total amount of royalties charged to operations for the years ended December 31, 2021, 2020 and 2019, were approximately \$0, \$228 and \$41, respectively. As of December 31, 2021, the Company's contingent liability for royalties, net of royalties paid or accrued is zero.

- b. The Company provides bank guarantees to some of its customers and others, in the ordinary course of business. The guarantees are to secure advances received at the commencement of a project or to secure performance of operational milestones. The total amount of bank guarantees provided to customers and others as of December 31, 2021, is approximately \$631.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- SHAREHOLDERS' EQUITY

a. Share capital:

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

In January 2019, the Company's shareholders approved the sale of 545,454 Ordinary shares to the then controlling shareholder at a price per share of \$2.75, approximately \$1,500 in the aggregate.

In January 2020, the Company completed an underwritten public offering of 4,819,052 Ordinary shares at a price of \$5.25 per share, for a total consideration of \$25,300. Offering costs amounted to approximately \$1,800.

In March 2021, the Company completed an underwritten public offering of 5,175,000 Ordinary shares at a price of \$11.50 per share, for a total consideration of \$59,512. Offering costs amounted to \$3,575

b. Stock option plans:

In April 2015, the Company's Board of Directors adopted the "2015 Share Option Plan" (the "Plan"), which authorized the grant of options to purchase Ordinary shares to officers, directors, consultants and key employees of the Company and its subsidiaries. Options granted under the Plan expire within a maximum of ten years from adoption of the plan in 2018, the Company's Board of Directors had extended the plan to 10 additional years.

Generally, under the terms of the Plan, unless determined otherwise by the administrator of the Plans, 25% of the option granted becomes exercisable on the first anniversary of the date of grant and 6.25% becomes exercisable once every quarter during the subsequent three years.

In addition, options granted under the Plan granted at the average closing price of our Ordinary shares as quoted on NASDAQ during the 30 business days prior to the date the option is granted.

For our US employees, the exercise price is the higher of (a) the average closing price of our Shares as quoted on NASDAQ during the 30 business days prior to the date the option is granted, and (b) the closing price as quoted on NASDAQ on the last trading day preceding the date the option is granted.

These options will be exercisable for 48 months following the date of vesting.

In November 2021, the Company's Board of Directors adopted the "2021 Equity Incentive Plan" (the "2021 Plan"), as amended on December 30, 2021. The 2021 Plan authorized the grant of options to purchase Ordinary shares to officers, directors, consultants and key employees of the Company and its subsidiaries. Awards granted under the plan may be option, restricted shares and restricted share unit.

As of December 31, 2021, options to purchase 1,583,450 Ordinary shares are available for future grant under the two above mention Plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

A summary of the Company's activity for options granted to employees and directors under the Plan is as follows:

	Twelve months ended December 31, 2021			
	Number of options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate Intrinsic Value Price
Outstanding at the beginning of the period	3,290,162	3.57	7.91	8,768
Granted	1,785,000	12.60	-	-
Exercised	(665,822)	2.78	-	-
Forfeited	(85,638)	7.93	-	-
Outstanding at the end of the period	4,323,702	7.33	7.99	14,584
Exercisable	1,625,505	\$ 3.27	9.03	\$ 9,903

Aggregate intrinsic value of exercisable options (the difference between the closing share price of the Company's Ordinary shares on the last trading day in the period and the exercise price, multiplied by the number of in-the-money options) represents the amount that would have been received by the employees and directors option holders had all option holders exercised their options on December 31, 2021. This amount changes based on the fair market value of the Company's Ordinary shares.

The total intrinsic value of options exercised during the years ended December 31, 2021, 2020 and 2019 was \$4,418, \$4,596, and \$1,192, respectively.

The weighted average grant date fair value of options granted to employees and directors during the years ended December 31, 2021, 2020, and 2019, was \$4.79, \$2.46 and \$2.25, respectively.

As of December 31, 2021, unrecognized compensation expenses related to employees and directors stock options to be recognized over a weighted average time of approximately 4 years is approximately \$8,811.

The share-based compensation expense by line item in the accompanying Consolidated Statements of Operations is summarized as follows:

	Year ended December 31,		
	2021	2020	2019
Cost of revenues	\$ 477	\$ 256	\$ 134
Research and development	\$ 696	\$ 393	\$ 243
Marketing and selling	\$ 195	\$ 22	\$ 57
General and administrative	\$ 1,654	\$ 765	\$ 714
	\$ 3,022	\$ 1,436	\$ 1,148

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME

a. Corporate tax rate:

The Israeli corporate tax rate and real capital gains tax was 23% in 2021, 2020 and 2019. The Company's subsidiaries, which were incorporated in the U.S. were subject to federal tax rate of 21% in 2021, 2020 and 2019.

b. Tax benefits:

The Company's production facilities in Israel have been granted "Beneficiary Enterprise" status under the Law. The Company have been granted the "Alternative Benefit Track" under which the main benefits are a tax exemption for undistributed income and a reduced tax rate.

The duration of tax benefits is subject to a limitation of the earlier of 12 years from commencement of production, or 14 years from the approval date.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the Law and regulations published. In the event of failure to comply with these conditions, the benefits may be partially or fully cancelled and the Company may be required to refund the amount of the benefits, in whole or in part, plus a consumer price index linkage adjustment and including interest.

Income from sources other than the "Beneficiary Enterprise" are subject to the tax at the regular rate.

In the event of distribution of dividends from the above-mentioned tax-exempt income, the amount distributed will be subject to the same reduced corporate tax rate that would have been applied to the Beneficiary Enterprise's income.

In addition, tax-exempt income attributed to the Beneficiary Enterprise will subject the Company to taxes upon distribution in any manner including complete liquidation.

A January 2011 amendment to the Law sets alternative benefit tracks to those previously in place, as follows: an investment grants track designed for enterprises located in national development zone A and two new tax benefits tracks ("Preferred Enterprise" and "Special Preferred Enterprise"), which provide for application of a unified tax rate to all preferred income of the Company, as defined in the Law.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

The 2011 Amendment cancelled the availability of the benefits granted in accordance with the provisions of the Law prior to 2011 and, instead, introduced new benefits for income generated by a "Preferred Company" through its Preferred Enterprise (as such term is defined in the Law) effective as of January 1, 2011 and thereafter. A Preferred Company is defined as either (i) a company incorporated in Israel and not fully owned by a governmental entity or (ii) a limited partnership that: (a) was registered under the Partnerships Ordinance; (b) all of its limited partners are companies incorporated in Israel, but not all of them are governmental entities, which, among other things, has Preferred Enterprise status and are controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate flat tax rate of 16% with respect to its preferred income, unless the Preferred Enterprise is located in a certain development zone, in which case the rate will be 9%. Income derived by a Preferred Company from a "Special Preferred Enterprise" (as such term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or to 5% if the Special Preferred Enterprise is located in a certain development zone.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments ("the Amendment") was published. According to the Amendment, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%). Pursuant to Amendment 73 to the Investment Law adopted in 2017, a Company that meets the conditions for "Preferred Technological Enterprises", is subject to tax rate of 12%.

Dividends paid out of income attributed to a Preferred Enterprise are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty. However, if such dividends are paid to an Israeli company, no tax will be withheld.

The 2011 Amendment also provided transitional provisions to address companies already enjoying current benefits. a Beneficiary Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met, or file a request with the Israeli Tax Authority according to which its income derived as of January 1, 2011 will be subject to the provisions of the Law as amended in 2011.

Tax benefits under the Israeli Law for the Encouragement of Industry (Taxation), 1969:

The Israeli companies are an "Industrial Company" as defined by the Israeli Law for the Encouragement of Industry (Taxation), 1969, and, as such, are entitled to certain tax benefits including accelerated depreciation, deduction of public offering expenses in three equal annual instalments and amortization of other intangible property rights for tax purposes.

c. Tax assessments:

In accordance with the Israeli tax laws, tax returns of the Company submitted up to and including the 2017 tax year can be regarded as final. The Company's subsidiaries did not receive final tax assessments since their incorporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

d. Carry-forward losses for tax purposes:

Carry-forward operating tax losses of the Company total approximately \$55,600, as of December 31, 2021 and may be used indefinitely. Capital loss as of December 31, 2021 is \$8,800 and may be used indefinitely.

e. Deferred income taxes:

Deferred income taxes reflect the net tax effects of mainly the Company's Carry-forward operating tax losses, temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows and they are presented considering the relevant tax rate:

	December 31,	
	2021	2020
Net operating loss carry-forward	\$ 5,681	\$ 6,539
Capital loss carry-forward	898	941
Allowances and reserve	1,823	202
Total deferred tax assets before valuation allowance	8,402	7,682
Valuation allowance	(1,571)	(7,682)
Property, plant and equipment	(1,150)	-
Net deferred tax assets	<u>\$ 5,681</u>	<u>\$ -</u>

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. As of each reporting date, management considers new evidence, both positive and negative, that could impact management's view with regards to the future realization of deferred tax assets for each jurisdiction.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

f. Income (loss) before income taxes is comprised as follows:

	Year ended December 31,		
	2021	2020	2019
Domestic	\$ 11,319	\$ 4,533	\$ (2,383)
Foreign	\$ 8,880	\$ 1,107	\$ 44
Income (loss) before income taxes	\$ 20,199	\$ 5,640	\$ (2,339)

g. Taxes on income are comprised as follows:

	Year ended December 31,		
	2021	2020	2019
Current	\$ 806	\$ -	\$ -
Deferred	\$ (5,681)	\$ -	\$ -
Tax benefit	\$ (4,875)	\$ -	\$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

h. Uncertain tax positions:

The Company accounts for its income tax uncertainties in accordance with ASC 740, which clarifies the accounting for uncertainties in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

As of December 31, 2021 and 2020, there were no unrecognized tax benefits that if recognized would affect the annual effective tax rate.

i. For the years ended on December 31, 2020 and 2019, the main reconciling items between the statutory tax rate of the Company and the effective tax rate is the valuation allowance recorded in respect of the deferred tax assets relating to net operating loss carry-forward and other temporary differences due to the uncertainty of the realization of such tax assets. For the year ended on December 31, 2021, A reconciliation between the theoretical tax expense, assuming all income is taxed at the Israeli statutory tax rate applicable to income of the Company and the actual tax expense as reported in the statement of operations is as follows:

	<u>2021</u>
Income (loss) before taxes, as reported in the consolidated statements of income	\$ 20,199
Theoretical tax expense (benefit) at the Israeli statutory tax rate	\$ 4,646
Tax adjustment in respect of different tax rate of foreign subsidiaries	\$ 533
Non-deductible expenses and other permanent differences	\$ 506
Utilizing of net operating losses during the year, for which valuation allowance was provided in prior years	\$ (3,797)
Recognition of deferred taxes during the year, for which valuation allowance was provided in prior years	\$ (5,681)
Permanent differences and shares issuance expenses	\$ (1,193)
Other	\$ 111
Actual tax expense (benefit)	<u>\$ (4,875)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- FINANCIAL EXPENSES, NET

	Year ended December 31,		
	2021	2020	2019
<b>Income:</b>			
Foreign currency exchange differences	\$ 64	\$ -	\$ -
Interest on cash equivalents and restricted deposits	517	278	359
Operating lease income	-	195	-
Other	-	131	96
	<u>581</u>	<u>604</u>	<u>455</u>
<b>Expenses:</b>			
Bank commissions and others	48	51	38
Operating lease expenses	99	-	85
Foreign currency exchange differences	593	386	453
	<u>740</u>	<u>437</u>	<u>576</u>
Total financial income (expenses), net	<u>\$ (159)</u>	<u>\$ 167</u>	<u>\$ (121)</u>

NOTE 14:- RELATED PARTY BALANCE AND TRANSACTIONS

In January 2017, the Company's shareholders approved that in addition to the directors' fees to be paid to all of the Company's directors, commencing as of January 1, 2017, the Company will pay to its Executive Chairman of the Board of Directors additional monthly payment of approximately \$5.4 (NIS 17.5) for time devoted to the Company. Such payment is subject to increase in the event the Company achieved profitable operations. In 2017, the Company's consolidated audited financial statements reflected net income (before taxes), so such additional payment increased to approximately \$10.8 (NIS 35). In 2021 and 2020, the total payments to the Executive Chairman of the Board of Directors were \$130 and \$123, respectively.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- RELATED PARTY BALANCE AND TRANSACTIONS (Cont.)

See also Note 11 for transactions with the Company's shareholders.

Balances with related parties:

	December 31,	
	2021	2020
Accrued expenses	\$ 38	\$ 52

Related parties' expenses:

	Year ended December 31,		
	2021	2020	2019
Directors and management fees	\$ 146	\$ 167	\$ 169

NOTE 15:- MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION

a. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company manages its business on the basis of one reportable segment, and derives revenues from develops, manufactures and sells land radar for defense forces and border protection applications, avionics equipment and aviation data acquisition and debriefing systems (see Note 1 above for a brief description of the Company's business).

b. Revenues by geographic areas:

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

	Year ended December 31,		
	2021	2020	2019
North America	\$ 84,739	\$ 45,080	\$ 21,995
Israel	17,866	15,485	12,737
Europe	4,214	12,038	6,073
Asia	9,616	1,740	2,499
South America	339	1,089	1,027
Other	462	785	-
Total	\$ 117,236	\$ 76,217	\$ 44,331

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- MAJOR CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

c. Major customers:

Revenues from single customers that exceed 10% of the total revenues in the reported years as a percentage of total revenues are as follows:

	Year ended December 31,		
	2021	2020	2019
	%		
Customer A	26	2	7
Customer B	16	21	-
Customer C	4	14	7
Customer D	2	10	-
Customer E	1	4	12

d. Long-lived assets (property, plant and equipment) by geographic areas:

	December 31,	
	2021	2020
Israel	\$ 19,811	\$ 14,833
USA	11,364	9,716
	<u>\$ 31,175</u>	<u>\$ 24,549</u>

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**RADA ELECTRONIC INDUSTRIES LTD.**

By: /s/ Dov Sella  
Name: Dov Sella  
Title: Chief Executive Officer

Dated: March 24, 2022

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RADA ELECTRONIC INDUSTRIES LTD.

2021 EQUITY INCENTIVE PLAN

1. Purposes of the Plan. The purposes of this 2021 Equity Incentive Plan are:

- (a) to attract and retain the best available personnel for positions of substantial responsibility,
- (b) to provide additional incentive to Service Providers, and
- (c) to promote Participants' interest in the success of the Company's business.

Awards granted under the Plan may be Options, Restricted Shares and Restricted Share Units, as determined by the Administrator at the time of grant.

Furthermore, the Plan is designed to benefit from, and is made pursuant to, the provisions of Section 102 of the Ordinance, with respect to Awards granted to Employees pursuant to the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees that will be designated by the Board, as shall be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Affiliate" means an "employing company" as such term is defined in Section 102(a) of the Ordinance, other than the Company itself as well as any other entity which is, directly or indirectly, controlled by the Company.

(c) "Applicable Laws" means the requirements relating to the administration of, or otherwise affecting, equity compensation plans under the Companies Law, the Securities Law, other applicable laws of Israel, U.S. federal and state securities laws, any stock exchange or quotation system on which the Shares are listed or quoted, U.S. state corporate laws, and the laws of any other country or jurisdiction where Awards are granted under the Plan or a sub-plan or addendum hereto.

(d) "Approved 102 Award" means an Award granted pursuant to Section 102(b) of the Ordinance and held in trust by a Trustee for the benefit of the Participant.

(e) "Award" means, individually or collectively, a grant under the Plan of Options, Restricted Shares or Restricted Share Units.

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- (f) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.
- (g) "Awarded Shares" means the Shares subject to an Award.
- (h) "Board" means the Board of Directors of the Company.
- (i) "Capital Gains Award (CGA)" means an Approved 102 Award elected and designated by the Company to qualify for capital gains tax treatment in accordance with Section 102(b)(2) of the Ordinance.
- (j) "Change of Control" means the occurrence of any of the following events, in one or a series of related transactions:
- (i) The acquisition of the Company by another entity by means of any transaction or series of related transactions (including, without limitation, any reorganization, merger or consolidation); or
  - (ii) a sale of all or substantially all of the assets of the Company (including intellectual property rights if, in the aggregate, such rights constitute substantially all of the Company's material assets); or
  - (iii) the gain of control (as such term is defined in the Companies Law), by any shareholder or shareholders.
- (k) "Committee" means a Committee appointed by the Board in accordance with Section 4 of the Plan.
- (l) "Companies Law" means the Israeli Companies Law, 5759-1999.
- (m) "Company" means RADA Electronic Industries Ltd.
- (n) "Consultant" means any person, other than an Employee, engaged by the Company or any Affiliate to render services.
- (o) Intentionally omitted.
- (p) "Controlling Shareholder" shall have the meaning ascribed to such term in Section 32(9) of the Ordinance.
- (q) "Director" means a member of the Board.
- (r) "Disability" means total and permanent disability as determined by the Administrator.
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(s) "Election" means the Company's election of the type of Approved 102 Awards as set forth in Section 14(b)(iii).

(t) "Employee" means any person employed by the Company or any Affiliate of the Company, and includes Officers and Directors. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, any Subsidiary, or any successor.

(u) "Fair Market Value" means, as of any date, the value of Shares determined as follows:

(i) If the Shares are listed on any established stock exchange or a national market system, including without limitation the NASDAQ Capital Market of the National Association of Securities Dealers, Inc. Automated Quotation ("Nasdaq") System, the Fair Market Value of a Share shall be the closing sales price for such shares (or the closing bid, if no sales were reported) as quoted on such system or exchange (or the exchange with the greatest volume of trading in Shares) on the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; provided, however, that if there is no closing sales price (or closing bid if no sales were reported) for the Shares on the date of determination, then the Fair Market Value shall be the closing sales price (or closing bid if no sales were reported) on the last preceding date for which such quotation exists;

(ii) If the Shares are quoted on the Nasdaq System (but not on the NASDAQ Global Select Market thereof) or are regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share shall be the mean between the high bid and low asked prices for the Shares on the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; provided, however, that if there is no bid and asked prices for the Shares on the date of determination, then the Fair Market Value shall be the mean between the high bid and low asked prices for the Shares on the last preceding date for which such bid and asked prices exists; and

(iii) In the absence of an established market for the Shares, the Fair Market Value shall be determined in good faith by the Administrator.

(v) "ITA" means the Israeli Tax Authorities.

(w) "Non-approved 102 Award" means an Award granted pursuant to Section 102(c) of the Ordinance and not held in trust by a Trustee.

(x) "Officer" means, with respect to the Company and Affiliates that are Israeli companies, a person who is a "nose misra" within the meaning of the Companies Law but is not a Director, and with respect to Affiliates that are not Israeli companies means a person who is an officer within the meaning of the applicable corporate law of the jurisdiction of incorporation of such Affiliate.

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- (y) “Option” means an option to purchase Shares granted pursuant to the Plan.
  - (z) “Ordinance” means the Israeli Income Tax Ordinance (New Version), 1961 as now in effect and as hereafter amended.
  - (aa) “Ordinary Income Award (OIA)” means an Approved 102 Award elected and designated by the Company to qualify for ordinary income tax treatment in accordance with Section 102(b)(1) of the Ordinance.
  - (bb) “Ordinary Shares” shall mean the Ordinary Shares of the Company n.v NIS0.03.
  - (cc) “Participant” means the holder of an outstanding Award granted under the Plan.
  - (dd) “Plan” means this RADA Electronic Industries Ltd. 2021 Equity Incentive Plan.
  - (ee) “Restricted Shares” means Shares granted pursuant to Section 9 of the Plan.
  - (ff) “Restricted Share Unit” means an Award granted pursuant to Section 10 of the Plan.
  - (gg) “Section 3(i) Award” means an Award granted to a Consultant or a Controlling Shareholder in accordance with Section 3(i) of the Ordinance.
  - (hh) “Section 102” means Section 102 of the Ordinance and any regulations, rules, and orders of procedures promulgated thereunder as now in effect or as hereafter amended.
  - (ii) “Section 102 Shares” means Shares issued under a Section 102 Award pursuant to Section 14(c)(i) below.
  - (jj) “Section 102 Period” shall have the meaning ascribed to such term in Section 14(c)(i) below.
  - (kk) “Securities Law” means the Israeli Securities Law, 5728–1968.
  - (ll) “Service Provider” means an Employee or Consultant.
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(mm) "Share" means one Ordinary Share, as adjusted in accordance with Section 16 of the Plan.

(nn) "Trustee" means a trustee designated by the Board and approved by the ITA, pursuant to the requirements of Section 102 and a trust agreement to be entered into and between the Company and such Trustee and approved by the ITA.

3. Shares Subject to the Plan.

(a) Subject to the provisions of Section 16 of the Plan, the maximum aggregate number of Shares which may be issued under the Plan is 5,000,000 Shares.

(b) The Shares may be authorized but unissued, or reacquired (dormant), Shares.

(c) Any Shares subject to an Award shall be counted against the numerical limits of this Section 3 as one Share for every Share subject thereto.

(d) If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to Restricted Shares or Restricted Share Units, is forfeited to or repurchased by the Company at its original purchase price due to such Award failing to vest, the unpurchased Shares (or for Awards other than Options, the forfeited or repurchased shares) which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). Shares used to pay the exercise price of an Option shall not become available for future grant or sale under the Plan. Shares used to satisfy tax withholding obligations shall not become available for future grant or sale under the Plan.

4. Administration of the Plan.

(a) Procedure. The Plan shall be administered by (A) the Board or (B) a Committee, which committee shall be constituted to satisfy Applicable Laws. The Plan may be administered by different Committees with respect to different groups of Service Providers.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Shares, in accordance with Section 2(u) of the Plan;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

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- (iii) to determine whether and to what extent Awards or any combination thereof, are granted hereunder;
- (iv) to determine the number of Shares or equivalent units to be covered by each Award granted hereunder;
- (v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options may be exercised or other Awards vest (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or Shares relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine and to amend the exercise price or any other term and condition of any Option;

- (vii) to construe and interpret the terms of the Plan and Awards;

(viii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans or Plan addendums, established for the purpose of qualifying for preferred tax treatment (e.g., Section 102);

(ix) to modify or amend each Award (subject to Section 18(b) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options longer than is otherwise provided for in the Plan, provided, however, that no extension of the exercisability of an Option will be made with respect to an Option granted to a U.S. taxpayer if such extension would cause the Option to be covered by Section 409A of the Code;

- (x) to authorize any person to execute on behalf of the Company any instrument required to evidence the grant of an Award previously granted by the Administrator;

(xi) to allow Participants to satisfy withholding tax obligations by electing to have the Company and/or its Affiliates and/or the Trustee withhold taxes in accordance with the Applicable Laws. The Fair Market Value of any Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by a Participant to have Shares or cash withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

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- (xii) to determine the terms and restrictions applicable to Awards;
- (xiii) to determine the price per each Share to be issued under the Awards. Shares to be issued under grants of Restricted Shares and Restricted Share Units may be issued upon payment of their nominal value;
- (xiv) to make an election as to the type of 102 Approved Award; and
- (xv) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations shall be final and binding on all Participants and any other holders of Awards.

5. Eligibility. Awards may be granted to Service Providers, provided that Section 102 Awards may be granted only to Employees.

6. No Employment Rights. Neither the Plan nor any Award shall confer upon a Participant any right with respect to continuing the Participant's employment or other service with the Company or its Affiliates, nor shall they interfere in any way with the Participant's right or the Company's or Affiliate's right, as the case may be, to terminate such employment or other service at any time, with or without cause or notice.

7. Term of Plan. The Plan shall continue in effect until such date as the Board shall suspend or terminate the Plan in accordance with Section 18(a).

8. Options.

(a) Term. The term of each Option shall be stated in the Award Agreement; provided, however, that the term shall be no more than ten years (10) from the date of grant or such Option or shorter term as may be provided in the Award Agreement.

(b) Option Exercise Price. Unless determined otherwise by the Administrator, the per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be equal to the average closing price of the Shares in Nasdaq during the 30 days immediately preceding the date of grant of the Option.

(c) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions which must be satisfied before the Option may be exercised. In so doing, the Administrator may specify that an Option may not be exercised until the completion of a service period and/or until performance milestones are satisfied.

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(d) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of a Section 102 Award, the Administrator shall determine the acceptable form of consideration at the time of grant. Subject to Applicable Laws, such consideration may consist entirely of:

(i) cash;

(ii) check;

(iii) if, as of the date of exercise of an Option the Company then is permitting employees to engage in a "same-day sale" cashless brokered exercise program involving one or more brokers, through such a program that complies with the Applicable Laws and that ensures prompt delivery to the Company of the amount required to pay the exercise price and any applicable withholding taxes;

(iv) any combination of the foregoing methods of payment;

(v) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws;

(vi) Notwithstanding the above, the Participant may, at his/her own discretion instruct the Company in writing, as part of the Exercise Notice, that the payment for the Options will be made through "cashless exercise" mechanism (the "Cashless Notice"). In the event that the Participant has elect to submit the Cashless Notice then the Participant shall be entitled to receive a certificate for the number of Shares equal to the quotient obtained by dividing  $[(A-B) \times (N)]$  by (A),

**where:**

(A) = the average of the closing (or closing bid, if so reported) prices per Share on the five (5) Trading Days preceding the date of such election;

(B) = the Purchase Price; and

(N) = the number of shares issuable upon exercise of the Options in accordance with the terms of this Agreement.

The cashless exercise is not permissible under Section 102 of the Ordinance unless such cashless exercise is made pursuant to the special approval of the Israeli Income Tax Authorities.

(e) *Exercise of Option; Rights as a Shareholder*. Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

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An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option, (ii) full payment for the Shares with respect to which the Option is exercised, and (iii) as applicable, full payment or other satisfaction of any related tax withholding obligations. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Participant, provided, however, that Shares issued following the exercise of Options granted under Section 102(b) to the Ordinance shall be issued under the name of the Trustee for the benefit of the Participant and shall be held in trust by the Trustee. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the optioned stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 16 of the Plan.

9. Restricted Shares.

(a) Grant of Restricted Shares. Subject to the terms and conditions of the Plan, Restricted Shares may be granted to Participants at any time as shall be determined by the Administrator, in its sole discretion. The Administrator shall have complete discretion to determine (i) the number of Shares subject to a Restricted Shares award granted to any Participant, and (ii) the conditions that must be satisfied, which typically will be based principally or solely on continued provision of services but may include a performance-based component, upon which is conditioned the vesting of Restricted Shares.

(b) Other Terms. The Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of Restricted Shares granted under the Plan. Restricted Shares grants shall be subject to the terms, conditions, and restrictions determined by the Administrator at the time the Restricted Share is awarded. The Administrator may require the recipient to sign a Restricted Shares Award Agreement as a condition of the award. Any certificates representing the Shares awarded shall bear such legends as shall be determined by the Administrator.

(c) Restricted Shares Award Agreement. Each Restricted Shares grant shall be evidenced by an agreement that shall specify the purchase price (if any) and such other terms and conditions as the Administrator, in its sole discretion, shall determine.

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10. Restricted Share Units (RSU).

(a) Grant. Restricted Share Units may be granted at any time and from time to time as determined by the Administrator. The Administrator shall have complete discretion to determine (i) the number of Shares subject to a Restricted Share Unit award granted to any Participant, and (ii) the conditions that must be satisfied, which typically will be based principally or solely on continued service but may include a performance-based component, upon which is conditioned the grant or vesting of Restricted Share Units. Restricted Share Units shall be granted in the form of units to acquire Shares. Each such unit shall be the equivalent of one Share for purposes of determining the number of Shares subject to an Award. Unless the Administrator determines otherwise, until the Shares are issued, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the units to acquire Shares.

(b) Vesting Criteria and Other Terms. The Administrator shall set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Share Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, Affiliate-wide, business unit, or individual goals (including, but not limited to, continued employment), or any other basis determined by the Administrator in its discretion.

(c) Earning Restricted Share Units. Upon meeting the applicable vesting criteria, the Participant shall be entitled to receive a payout of Shares as specified in the Restricted Share Unit Award Agreement. Notwithstanding the foregoing, at any time after the grant of Restricted Share Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout of Shares.

(d) Form and Timing of Settlement. Settlement of earned Restricted Share Units shall be made as soon as practicable after the date(s) set forth in the Restricted Share Unit Award Agreement. The Settlement of earned Restricted Share Units shall be made in Shares.

(e) Cancellation. On the date set forth in the Restricted Share Unit Award Agreement, all unearned Restricted Share Units shall be forfeited to the Company.

11. Termination of Relationships, Death or Disability.

(a) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, then, unless otherwise determined by the Administrator, on the date the Participant ceases to be a Service Provider, (i) a Participant's vested Options will expire if and to the extent they are not exercised within the time specified in the Award Agreement or, if no time is specified, (A) within 90 days after the date the Participant ceases to be a Service Provider (or 12 months in the case the Participant ceases to be a Service Provider due to death or Disability), and (B) within 12 months after the date a Participant that is a Director ceases to be a member of the Board, but in no event later than the expiration of the term of such Option as set forth in the Award Agreement; and (ii) the unvested portion of any Option or other Award will automatically be forfeited and expire on the date the Participant ceases to be a Service Provider.

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(b) Death of Participant. If a Participant ceases to be a Service Provider as a result of his death, the Participant's designated beneficiary or, if none, the Participant's estate shall succeed to the Awards held by the deceased Participant, subject to the terms of the Plan and the applicable Award Agreement.

12. Leaves of Absence. Unless the Administrator provides otherwise or except as otherwise required by Applicable Laws, vesting of Awards granted hereunder shall cease commencing on the first day of any unpaid leave of absence and shall only recommence upon return to active service.

13. Non-Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the recipient, only by the recipient. If the Administrator makes an Award transferable, it may only be transferable for no consideration to transferees permitted pursuant to a Form S-8 Registration Statement (such as family members or pursuant to a settlement of marital property rights) and such Award shall contain such additional terms and conditions as the Administrator deems appropriate.

14. Grant of Approved 102 Awards and Non-approved 102 Awards.

(a) Participants. Approved 102 Awards may only be granted to Employees who are residents of the State of Israel. Except as otherwise specifically approved by the ITA, a Controlling Shareholder or a Consultant shall not be eligible for grant of Approved 102 Awards or Non-approved 102 Awards, and shall only be eligible for grant of Section 3(i) Awards as set forth in Section 15.

(b) Grant of Section 102 Awards.

(i) The Company may designate Awards granted to Employees pursuant to Section 102 as Non-approved 102 Awards or Approved 102 Awards.

(ii) The grant of Approved 102 Awards under the Plan shall be conditioned upon the approval of the Plan by the ITA.

(iii) Approved 102 Awards may either be classified as Capital Gains Awards (CGAs) or Ordinary Income Awards (OIAs). Approved 102 Awards may not be granted under the Plan unless and until the Company's election of the type of Approved 102 Awards as CGA or OIA granted to Employees (the "Election") is appropriately filed with the ITA. Such Election shall become effective beginning the first date of grant of an Approved 102 Award and shall remain in effect until the end of the year following the year during which Employees were first granted Approved 102 Awards. The Election shall obligate the Company to grant only the type of Approved 102 Awards it has elected, and shall apply to all Participants who were granted such Approved 102 Awards during the period indicated herein, all in accordance with the provisions of Section 102(g) of the Ordinance. For the avoidance of doubt, such Election shall not prevent the Administrator from granting Employees Approved 102 Awards and Non-approved 102 Awards simultaneously.

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(iv) All Approved 102 Awards must be held in trust by a Trustee, as described in subsection (c) below.

(v) For the avoidance of doubt, the designation of Non-approved 102 Awards and Approved 102 Awards shall be subject to the terms and conditions of Section 102.

(vi) With respect to Non-approved 102 Award, if the Employee ceases to be employed by the Company or any Affiliate, the Employee shall extend to the Company and/or its Affiliate a security or guarantee for the payment of tax due at the time of sale of Shares, all in accordance with the provisions of Section 102.

(c) Trustee.

(i) All Approved 102 Awards granted under the Plan and any Shares allocated or issued upon exercise of such Approved 102 Awards ("Section 102 Shares") or other shares received subsequently following any realization of rights, including bonus shares, shall be allocated or issued to the Trustee, and shall be held by the Trustee for the benefit of the Participants for such period of time as required by Section 102 (the "Section 102 Period"). In case the requirements for Approved 102 Awards are not met, then the Approved 102 Awards shall be regarded as Non-approved 102 Awards, all in accordance with the provisions of Section 102.

(ii) Notwithstanding anything to the contrary, the Trustee shall not release any Section 102 Shares or other Shares received subsequently following any realization of the Participant's rights prior to the full payment of the Participant's tax liabilities arising from the grant, exercise, release or transfer of the Approved 102 Award and any Section 102 Shares or other Shares received subsequently following any realization of rights.

(iii) With respect to any Approved 102 Awards, subject to the provisions of Section 102, a Participant shall not sell or release from trust any Section 102 Shares or any Shares received subsequently following any realization of rights, including bonus shares, until the lapse of the Section 102 Period. Notwithstanding the above, if any such sale or release occurs during the Section 102 Period, the sanctions under Section 102 shall apply to, and be borne by, such Participant.

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(iv) Upon receipt of an Approved 102 Award, the Participant will sign an Award Agreement under which the Participant will agree to be subject to the trust agreement between the Company and the Trustee, stating, among others, that the Trustee will be released from any liability in respect of any action or decision duly taken and bona fide executed in relation with the Plan, or any Approved 102 Award or Section 102 Share granted to him or her thereunder.

(v) As long as Approved 102 Awards granted, or Section 102 Shares are held by the Trustee, then all rights the Participant possesses over such Awards or Shares may not be transferred, assigned, pledged or mortgaged by the Participant, other than by will or laws of descent and distribution.

(vi) If dividends, whether cash, property or share dividends, are declared on Section 102 Shares held by the Trustee, such dividends shall also be subject to the provisions of Section 102 and the provisions of this Section 14. The Section 102 Period for any such additional shares shall be equal to the Section 102 Period for the original Section 102 Shares.

(vii) At any time after the end of the Section 102 Period with respect to any Section 102 Awards or Section 102 Shares, the Participant may order (but shall not be obligated to order) the Trustee to sell or transfer to the Participant such Section 102 Awards or Section 102 Shares, provided that no securities shall be sold or transferred until all required payments have been fully made: (i) such Participant has deposited with the Trustee an amount of money which, in the Trustee's opinion, is necessary to discharge such Participant's tax obligations with respect to such Section 102 Awards or Section 102 Shares, or (ii) the receipt by the Trustee of an acknowledgment from the ITA that the Participant has paid any applicable tax due pursuant to the Ordinance, or (iii) the Company has made other arrangements for the deduction of tax at source acceptable to the Trustee, or (iv) upon the sale by the Trustee of any securities held in trust from the proceeds of which the Company or the Trustee has withheld all applicable taxes and has remitted the amount withheld to the appropriate Israeli tax authorities, has paid the balance thereof directly to such Participant, and has reported to such Participant the amount so withheld and paid to such tax authorities.

(d) Integration of Section 102 and Tax Assessing Officer's Permit. With regards to Approved 102 Awards, the provisions of the Plan and the Award Agreement shall be subject to the provisions of Section 102 of the Ordinance and the Tax Assessing Officer's permit, and the said provisions and permit shall be deemed an integral part of the Plan and of the Award Agreement.

(e) Un Approved 102 Options. Options granted pursuant to this sub Section (e) shall be subject to the general terms and conditions specified in the Plan, except for said provisions of the Plan applicable solely to the requirement of Section 102. Un Approved 102 Options may only be granted (i) to Employees of the Company or its Affiliates that are not Israeli residents or (ii) to Consultants. Such un Approved 102 Options may be issued to a trustee appointed by the Administrator (that may also act as the trustee pursuant to the Section 102).

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(f) Tax Consequences.

(i) The Company, or where applicable, the Trustee, shall not be required to release any share certificate to a Participant until all required tax and other payments have been fully made.

(ii) Solely for the purpose of determining the tax liability pursuant to Section 102(b)(3) of the Ordinance, if at the date of grant the Company's shares are listed on any established stock exchange or a national market system or if the Company's shares will be registered for trading within ninety days following the date of grant of the Approved 102 Award, the Fair Market Value of the Shares at the date of grant shall be determined in accordance with the average value of the Company's Shares on the thirty trading days preceding the date of grant or the thirty trading days following the date of registration for trading, as the case may be.

15. Grant of Section 3(i) Awards. In the event that grants are made under Section 3(i) of the Ordinance, the Company may elect to enter into an agreement with a trustee concerning the administration of the exercise of Options, the purchase and sale of Shares, and the arrangements for payment of or withholding of taxes due in connection with such exercise, purchase and sale. The trust agreement may provide that the Company will issue the Shares to such trustee for the benefit of the Participants. The type of Section 3(i) Awards to be granted under the Plan shall be subject to the provisions of Section 3(i) to the Ordinance.

16. Adjustments Upon Changes in Capitalization, Dissolution or Liquidation or Change of Control.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Ordinary Shares covered by each outstanding Award, the number of shares of Ordinary Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award, as well as the price per Ordinary Shares covered by each such outstanding Award shall be proportionately adjusted for any increase or decrease in the number of issued Ordinary Shares resulting from a share split, reverse share split, share dividend, combination or reclassification of the Ordinary Shares, or any other increase or decrease in the number of issued Ordinary Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Ordinary Shares subject to an Award.

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(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Participant as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for a Participant to have the right to exercise his or her Option prior to such transaction as to all of the Awarded Shares covered thereby, including Shares as to which the Award would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option or forfeiture conditions applicable to any Award shall lapse 100%, and that any Award vesting shall accelerate 100%, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised (with respect to Options) or vested (with respect to other Awards), an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change of Control; Other Adjustments.

(i) If a Change of Control occurs, then, except as otherwise specifically provided by the applicable Award agreement (or any other applicable agreement approved by the Administrator and made by the Company with the Participant) each Award outstanding under the Plan immediately prior to the Change of Control will be either assumed and continued in accordance with Section 16(c)(ii) or terminated in accordance with Section 16(c)(iii).

(ii) Subject to Section 16(c)(i), if a Change of Control occurs, the parties to the Change of Control may agree that any Award outstanding under the Plan immediately prior to the Change of Control shall, at the effective time of the Change of Control, be assumed and continued on substantially the same vesting and other terms and conditions as a like Award with respect to shares of common stock of the successor or acquiring company (or a parent company).

(iii) Subject to Section 16(c)(i), any Award outstanding under the Plan immediately prior to a Change of Control that is not assumed pursuant to the preceding section will be terminated at the effective time of the Change of Control. No Participant shall be entitled to receive any payments or any other rights with respect to any terminated Options, Restricted Share or Restricted Share Unit that is not vested as of the effective time of the Change of Control. If the terminated Award is an Option that is vested as of the effective time of the Change of Control, the holder of the terminated vested Option will be entitled to receive at the effective time of the Change of Control a single sum payment equal to the excess, if any, of the transaction value of the Shares that are then covered by the Option over the aggregate exercise price. The amount payable with respect to the termination of an outstanding vested Option pursuant to this section will subject to withholding tax (in accordance with the Applicable Laws) and will be paid in cash, at the effective time of the Change of Control, unless the parties to the Change of Control agree that some or all of such amount will be payable in the form of freely tradable shares of common stock of the successor or acquiring company (or a parent company).

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(iv) Without derogating from the above, and subject to the provisions of the Plan and Section 102 of the Ordinance, the Administrator may accelerate the vesting schedule or extend the exercisability of any Award and waive conditions or restrictions on any Award, to the extent it shall deem appropriate and subject to the requirements of Section 102 of the Ordinance.

(v) In the event of any adjustment in the number of shares covered by any Award pursuant to the provisions hereof, any fractional shares resulting from such adjustment shall be disregarded, and each converted Award shall cover only the number of full shares resulting from the adjustment.

(vi) Cash Dividends. If the Company distributes cash dividends and the record date of such distribution falls prior to the exercise of an Award (including unvested Awards), then the exercise price of each Share that is subject to such Award shall be reduced by the gross amount of the cash dividend per share that was paid to the Company's shareholders pursuant to such distribution provided that the exercise price of any Share shall not be lower than the nominal value thereof. The mechanism for adjustment of exercise price in cases of payment of a cash dividend may be amended by the Board in accordance with the requirements or customary mechanism implemented on any applicable stock exchange.

(vii) All adjustments under this Article shall be made by the Administrator as constituted immediately prior to the Change of Control, and its determination as to what adjustments shall be made, and the extent thereof, shall be binding and conclusive.

17. Date of Grant. The date of grant of an Award shall be, for all purposes, even if the Award is subject to the approval of any third party including the shareholders of the Company, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination shall be provided to each Participant within a reasonable time after the date of such grant.

18. Amendment and Termination of the Plan.

(a) Amendment and Termination. Subject to any requirements of Applicable Law, the Board may at any time amend, alter, suspend or terminate the Plan.

(b) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Participant with respect to an outstanding Award, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing (or electronic format) and signed by the Participant and the Company or its Affiliate.

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19. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Award unless the exercise of the Award or the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise or receipt of an Award, the Company may require the person exercising or receiving such Award to represent and warrant at the time of any such exercise or receipt that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

(c) Tax Consequences. Any and all tax consequences arising from the grant, exercise, transfer, or sale of, or otherwise relating to, an Award or from the payment for or holding or sale or other disposition of Shares covered thereby or from any other event or act under the Plan (whether of the Participant or of the Company or of an Affiliate or the Trustee (in the case of an Approved 102 Award or a Non-Approved 102 Award) shall be borne solely by the Participant. As a condition of the exercise or settlement of an Award, the Company and/or its Affiliates and/or the Trustee (in the case of an Approved 102 Award or a Non-Approved 102 Award) shall withhold taxes according to the requirements under the Applicable Laws, including withholding taxes at source. Furthermore, the Participant agrees to indemnify the Company, its Affiliates and the Trustee (in the case of an Approved 102 Award or a Non-Approved 102 Award), if applicable, and hold them harmless from and against any and all liability for any tax, or interest or penalty thereon, including liabilities relating to the necessity to withhold, or to have withheld, any tax from any payment made to the Participant.

20. Liability of Company.

(a) Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

(b) Grants Exceeding Allotted Shares. If the Awarded Shares covered by an Award exceeds, as of the date of grant, the number of Shares which may be issued under the Plan without additional Board and/or shareholder approval, as required under Applicable Laws, such Award shall be void with respect to such excess Awarded Shares, unless Board and/or shareholder approval, as required under Applicable Laws, of an amendment sufficiently increasing the number of Shares subject to the Plan is timely obtained in accordance with Section 18 of the Plan.

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(c) Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

21. Governing Law; Jurisdiction

This Plan and all determinations made and actions taken pursuant hereto shall be governed by the laws of the State of Israel, except with respect to matters that are subject to tax laws, regulations and rules of any specific jurisdiction, which shall be governed by the respective laws, regulations and rules of such jurisdiction. Certain definitions, which refer to laws other than the laws of such jurisdiction, shall be construed in accordance with such other laws. The competent courts located in Tel-Aviv-Jaffa, Israel shall have exclusive jurisdiction over any dispute arising out of or in connection with this Plan and any Award granted hereunder. By signing any Award Agreement or any other agreement relating to an Award, each Grantee irrevocably submits to such exclusive jurisdiction.

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RADA ELECTRONIC INDUSTRIES LTD. (the "Company")

2021 EQUITY INCENTIVE PLAN  
(the "Plan") - APPENDIX – U.S. TAXPAYERS

1. Special Provisions for Persons who are U.S. Taxpayers

This Appendix-U.S. Taxpayers (the "Appendix") to the RADA ELECTRONIC INDUSTRIES LTD 2021 Equity Incentive Plan (adopted on November 3, 2021 and as amended on December 30, 2021 and as may be further amended from time to time hereafter, and hereinafter referred to as the "Plan") is approved by the Board of Directors of the Company (the "Board") on February 9, 2022 (the "Effective Date").

The provisions specified in this Appendix apply only to persons who are subject to U.S. federal income tax (any such person, a "U.S. Taxpayer"). This Appendix provides for the grant of Non-Qualified Stock Options, Restricted Shares or Restricted Share Units. **Options granted under this Appendix are not intended to be "incentive stock options" within the meaning of Section 422 of the Code.**

Except as otherwise provided by this Appendix, all grants made pursuant to this Appendix shall be governed by the terms of the Plan (including, without limitation, its provisions regarding adjustments). This Appendix is applicable to all Awards granted to U.S. Taxpayers under the Plan after the Effective Date.

The Plan and this Appendix shall be read together. Capitalized terms used in this Appendix, but not defined herein, shall have the meaning given them in the Plan. For the purpose of granting Awards under this Appendix, in any case of an irreconcilable contradiction (as determined by the Administrator) between the provisions of this Appendix and the Plan, the provisions of this Appendix shall govern unless expressly stated otherwise in the Plan. For purposes of clarification, with respect to the granting of Awards under this Appendix, if any term is defined in the Plan and this Appendix differently, then the term (as used in this Appendix and any Agreement issued in connection with this Appendix) shall have the meaning as defined in this Appendix.

2. Definitions

Capitalized terms not otherwise defined herein shall have the meaning assigned to them in the Plan. The following additional definitions will apply to grants made pursuant to this Appendix:

"Code" means the U.S. Internal Revenue Code of 1986, as amended. Any reference to any section of the Code shall also be a reference to any successor provision and any Treasury Regulation promulgated thereunder.

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"**Disability**" means, for purposes of this Appendix, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time. Notwithstanding the foregoing, for Awards subject to Code Section 409A, Disability shall mean that a Participant is disabled under Code Section 409A(a)(2)(C)(i).

"**Fair Market Value**" means, for purposes of this Appendix, the higher of (a) the average closing price of our Shares as quoted on NASDAQ during the 30 business days prior to the date the Option is granted, and (b) the closing price as quoted on NASDAQ on the last trading day preceding the date the Option is granted. If at any time our Shares are not traded on an established securities market, the Fair Market Value shall be determined in good faith by the Administrator, taking into account such factors as it considers advisable in a manner consistent with the principles of Code Section 409A.

"**Non-Qualified Stock Option**" shall mean an Option not described in Section 422(b) or 423(b) of the Code, or, which, by its terms, does not qualify or is not intended to qualify as an Incentive Stock Option.

"**Option**" means a Non-Qualified Stock Option awarded hereunder.

"**Participant**" means a Service Provider who receives an Option hereunder.

"**Section 83(b) Election**" means an election by a Participant to include the Fair Market Value of a Share (less any amount paid for the Share) at the time of grant as part of the Participant's income in accordance with Section 83(b) of the Code. A Section 83(b) Election must be filed in writing with the Internal Revenue Service within thirty (30) days of the date of the Award, with a copy to the Company or Affiliate with whom the Participant is employed.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended, and all rules and regulations promulgated thereunder. Any reference to any section of the Securities Act shall also be a reference to any successor provision.

"**Service Provider**" shall mean an employee, director, office holder or consultant of the Company or an Affiliate.

### 3. **Terms and Conditions of Options**

*Option Agreement* Each Option granted under the Plan and this Appendix shall be evidenced by an Option Agreement between the Participant and the Company. Such Option shall be subject to all applicable terms and conditions of the Plan and this Appendix and may be subject to any other terms and conditions which are not inconsistent with the Plan and this Appendix and which the Administrator deems appropriate for inclusion in an Option Agreement. The provisions of the various Option Agreements entered into under the Appendix need not be identical and a Participant may be granted more than one Option.

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*Eligibility.* All Service Providers for whom the Company is an "eligible issuer of service recipient stock" (within the meaning of Code Section 409A, and using the 20% ownership test for determining the existence of a controlling interest), as determined by the Board in its sole discretion, are eligible to be granted Non-Qualified Stock Options under this Appendix. Eligibility for the grant of an Option and actual participation in this Appendix and the Plan shall be determined by the Board in its sole discretion.

*Exercise Price.* Each Option Agreement shall state the exercise price per share of the Shares covered by each Option, which option price shall be determined by the Administrator and shall be at least equal to the Fair Market Value per Share on the date of grant of the Option.

*Withholding Taxes.* As a condition to the purchase or acquisition of any Shares hereunder, the Participant shall make such arrangements as the Administrator may require for the satisfaction of any federal, state, local or foreign withholding tax obligations that may arise in connection with such purchase or acquisition.

*Restrictions on Transfer of Options and Shares.* No Option shall be assigned, transferred or otherwise disposed of by any Participant other than by will or by the laws of descent and distribution, and all Options shall be exercisable, during the Participant's lifetime, only by the Participant. Any Shares awarded upon exercise of an Option under the Plan and this Appendix shall be subject to such restrictions on transfer as are generally applicable to holders of Ordinary Shares of the Company in accordance with the Company's By-Laws and Certificate of Incorporation and other transfer restrictions as set forth in the Plan.

#### **4. Restricted Shares; Restricted Share Units and Other Share-Based Awards**

*Restricted Shares.* A grant of Restricted Shares as provided for in the Plan may, but is not required to, have a purchase price which may be set at the discretion of the Administrator. In the case of a grant of Restricted Shares for which a purchase price is required, such grant shall not be made until arrangements for payment of the purchase price have been established that are satisfactory to the Administrator. In accordance with the terms of the Code, a Participant shall be responsible for payment of all taxes incurred in connection with the grant of Restricted Shares. Accordingly, upon the vesting of Restricted Period, or upon making a Section 83(b) Election, a Participant shall make provision for the payment of all required withholding to the Company in accordance with Section 19(c) of the Plan.

*Restricted Share Units and Other Share-Based Awards.* The conditions and dates upon which Restricted Share Units and other equity-based and Share-based awards become vested and nonforfeitable and upon which the Shares underlying the Restricted Share Units and other equity-based and Share-based awards may be issued, in all cases, will be subject to compliance with Code Section 409A or exemption therefrom.

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5. **Certain Adjustments**

The Administrator may make adjustments of the type described in Section 16 of the Plan (other than as provided for in Section 16(c)(vi) of the Plan for regular cash dividends relating to Options), or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the Plan and to preserve the value of Awards made hereunder, subject to requirements for qualification, including continued qualification with, or exemption from, the requirements of Section 409A. Without limiting the generality of the foregoing, upon the occurrence of a cash distribution with respect to the Shares that constitutes a corporate transaction described in Treasury Regs. §1.424-1(a)(3)(ii) (an extraordinary dividend), the per share exercise price of each outstanding Option shall be reduced following the extraordinary dividend by an amount equal to the lesser of (i) the per Share extraordinary dividend, or (ii) the maximum reduction that can be made without jeopardizing the status of such Options as an exempt stock right under Section 409A and without otherwise resulting in an acceleration of taxable income under the Option, all as determined by the Administrator; provided, however, that, to the extent permitted by Code Section 409A, the Administrator may determine, in its sole discretion, to pay a cash bonus on such terms as the Administrator determines with respect to all or a portion of the Options outstanding on the date of the extraordinary dividend in lieu of reducing the exercise price of such Options as provided for in this Section 6.

6. **Term of Appendix**

Subject to any other applicable approval, the Appendix became effective upon the Effective Date. Unless (i) this Appendix is sooner terminated under Section 7 of this Appendix or (ii) the Plan is sooner terminated, the Appendix will continue in effect for a term of 10 years from its Effective Date and thereafter terminate (except as to Awards outstanding on that date).

7. **Amendment of Appendix**

This Appendix may be amended or terminated in accordance with the terms governing the amendment or termination of the Plan; provided, however, that unless otherwise determined by the Board, an amendment which requires shareholder approval in order for the Plan to continue to comply with any applicable law, regulations or under the rules of any exchange or system on which the Company's securities are listed or traded at the request of the Company, shall not be effective unless approved by the requisite vote of shareholders. For this purpose, no amendment may be made without the approval of the shareholders of the Company entitled to vote in accordance with applicable law that would allow for Options to qualify as Incentive Stock Options.

8. **Compliance with Code Section 409A**

Although the Company does not guarantee to a Participant, any particular tax treatment of Awards, Awards are intended be designed and operated in such a manner as to be exempt from the application, or in compliance with the requirements, of Code Section 409A. Each Award granted pursuant to the Plan, this Appendix and the applicable Award Agreement is intended to comply with (or be exempt from) the requirements of Code Section 409A and any ambiguities or ambiguous terms herein will be construed and interpreted in accordance with such intent. By way of example, and not limitation, (i) Options are intended to be exempt from the application of Code Section 409A either pursuant to U.S. Treasury Regulation Section 1.409A-1(b)(5)(i)(A) as non-statutory stock options not providing for the deferral of compensation and (ii) Restricted Share Units are intended to comply, to the greatest extent possible, with the "short-term deferral" rule set forth in Treasury Regulation Section 1.409A-1(b)(4), and such Awards shall be administered and interpreted in a manner that complies with such exemptions. Notwithstanding the foregoing, if this Award is interpreted as not being exempt from Code Section 409A, it shall be interpreted to comply with the requirement of Code Section 409A so that this award is not subject to additional tax or interest under Code Section 409A. In no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on the Participant by Section 409A of the Code or for any damages for failing to comply with Section 409A of the Code.

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**LIST OF SIGNIFICANT SUBSIDIARIES**

RADA Sensors Inc., a wholly-owned subsidiary incorporated in Delaware.

RADA Technologies LLC, an indirectly wholly-owned subsidiary in Maryland.

RADA Innovations LLC, an indirectly wholly-owned subsidiary in Maryland.

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**  
**Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended**

I, Dov Sella, certify that:

1. I have reviewed this annual report on Form 20-F of RADA Electronic Industries Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: March 24, 2022

/s/ Dov Sella \*

Dov Sella  
Chief Executive Officer  
(Principal Executive Officer)

\* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER**  
**Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended**

I, Avi Israel, certify that:

1. I have reviewed this annual report on Form 20-F of RADA Electronic Industries Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: March 24, 2022

/s/Avi Israel \*

Avi Israel  
Chief Financial Officer  
(Principal Financial Officer)

\* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of RADA Electronic Industries Ltd. (the "Company") on Form 20-F for the period ending December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dov Sella, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Dov Sella \*  
Dov Sella  
Chief Executive Officer  
(Principal Executive Officer)

Dated: March 24, 2022

\* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of RADA Electronic Industries Ltd. (the "Company") on Form 20-F for the period ending December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Avi Israel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/Avi Israel\*  
Avi Israel  
Chief Financial Officer  
(Principal Financial Officer)

Dated: March 24, 2022

\* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

1. Form F-3 (File Nos. 333-258935, 333-252015 and 333-226387) of RADA Electronic Industries Ltd.
2. Form S-8 (File Nos. 333-213284, 333-231678 and 333-238502) pertaining to the 2015 Share Option Plan of RADA Electronic Industries Ltd.

of our reports dated March 24, 2022, with respect to the consolidated financial statements of RADA Electronic Industries Ltd. and the effectiveness of internal control over financial reporting of RADA Electronic Industries Ltd. included in this Annual Report (Form 20-F) of RADA Electronic Industries Ltd. for the year ended December 31, 2021.

Tel Aviv, Israel  
March 24, 2022

/s/ Kost Forer Gabbay & Kasierer  
Kost Forer Gabbay & Kasierer  
A Member of Ernst & Young Global

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