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## EDGAR Submission Header Summary

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Submission Type	20-F
Live File	on
Return Copy	on
Submission Contact	Yaron Kleiner
Submission Contact Phone Number	011-972-54-2233-054
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Shell Company	No
Voluntary Filer	No
Well-Known Seasoned Issuer	No
Notify via Filing website Only	off
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### Documents

20-F	zk1008459.htm
	20-F
EX-8	exhibit_8.htm
	Exhibit 8
EX-12.1	exhibit_12-1.htm
	Exhibit 12.1
EX-12.2	exhibit_12-2.htm
	Exhibit 12.2
EX-13.1	exhibit_13-1.htm
	Exhibit 13.1
EX-13.2	exhibit_13-2.htm
	Exhibit 13.2
EX-15.1	exhibit_15-1.htm
	exhibit 15.1

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### Module and Segment References

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington D.C. 20549

**FORM 20-F**

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

**OR**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2009**

**OR**

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

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

☐ **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: 0-16050**

**TAT TECHNOLOGIES LTD.**

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

**Israel**

(Jurisdiction of incorporation or organization)

**P.O. Box 80, Gedera 70750, Israel**

(Address of principal executive offices)

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

Title of each class  
**Ordinary Shares, NIS 0.90 Par Value**

Name of each exchange on which registered  
**NASDAQ Capital Market**

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

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

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

**Ordinary Shares, par value NIS 0.90 per share**  
(as of December 31, 2009)

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Indicate by check mark which 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 ☒

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## INTRODUCTION

TAT Technologies Ltd (the Company or TAT) is a provider of a variety of services and products to the commercial and military aerospace and ground defense industries through our Gadera facility in Israel or Gadera, as well as through our subsidiaries, Bental Industries Ltd., or Bental, in Israel and Limco – Piedmont, Inc. or Limco in the U.S.

We operate under three segments: (i) Original Equipment Manufacturing or “OEM” of Heat Transfer products through our Gadera facility; (ii) OEM of Electric Motion Systems through our Bental subsidiary; and (iii) Maintenance, Repair and Overhaul or “MRO” services through our Limco subsidiary. Until December 4, 2009, TAT also operated a fourth operational segment, the Parts services, which was contributed to First Aviation Services, Inc., or “FAvS” as part of the transaction described under “Item 4 – Information of the Company; History and development of TAT”.

Through our Gadera facility, we are an OEM of a broad range of heat transfer components, air conditioning systems and other cooling systems used in mechanical and electronic systems on board military and commercial aircraft as well as on ground systems. The Gadera facility is also an OEM of a wide range of aviation accessories and provides limited MRO services for military and commercial customers, mainly for aviation accessories as well as for certain heat transfer components.

Through our Bental subsidiary, we are an OEM of a broad range of electric motion systems. Bental is engaged in the design, manufacture and sale of motors, generators, and other electro-mechanical motion systems primarily for the defense and aerospace markets.

Limco provides MRO services to the aerospace industry. Limco’s Federal Aviation Administration, or FAA, certified repair stations provide aircraft component MRO services for airlines, air cargo carriers, maintenance service centers and the military. In addition to Limco’s MRO services, Limco is also, to a limited extent, an OEM of heat transfer equipment for airplane manufacturers and other related products.

Limco’s Parts services division, operated until December 4, 2009, focused on inventory management and sale of APU parts, propellers and landing gear. Limco offered parts services for commercial, regional and charter airlines and business aircraft owners. On December 4, 2009, TAT contributed its parts division to FAvS and now holds 37% of FAvS’s share capital (See “Item 4 – Information of the Company; History and development of TAT”).

FAvS, together with its subsidiaries, is a leading suppliers of aircraft parts and components to the aviation industry worldwide, and is a provider of third party logistics and inventory management services to the aerospace industry. FAvS distributes the products of over 150 parts and component manufacturers and suppliers and in addition, offers certain maintenance, repair and overhaul services through three Federal Aviation Administration authorized facilities.

Our ordinary shares are publicly traded on the NASDAQ Global Market under the symbol "TATT" and on the Tel Aviv Stock Exchange under the symbol "TAT Tech". As used in this annual report, the terms "TAT", "we", "us" and "our" mean TAT Technologies Ltd. and its subsidiaries, unless otherwise indicated.

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

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

Except for the historical information contained in this annual report, the statements contained in this annual report are "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended, with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results. Statements which use the terms "anticipate," "believe," "do not believe," "expect," "plan," "intend," "estimate," "anticipate" and similar expressions are intended to identify forward-looking statements. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. 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."

## **PART I**

### **Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

### **Item 2. Offer Statistics and Expected Timetable**

Not applicable.

### **Item 3. Key Information**

#### **A. Selected Financial Data**

TAT's selected historical information is derived from the audited consolidated financial statements of TAT as of December 31, 2009 and 2008 and for each of its fiscal years ended December 31, 2009, 2008 and 2007, which are included elsewhere in this annual statement, and have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The selected financial data for each of the years in the two-year period ended December 31, 2006 and December 31, 2005 is derived from other audited consolidated financial statements of TAT, which have been prepared in accordance with U.S. GAAP. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to Item 5. "Operating and Financial Review and Prospects" and our consolidated financial statements and notes thereto included elsewhere in this annual report.

**Income Statement Data:**

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(audited, in thousands, except per share data)				
Revenues:					
Sale of products	\$ 34,751	\$ 31,724	\$ 18,928	\$ 18,512	\$ 17,537
Services and other	48,340	71,565	69,776	59,021	31,656
Total revenues	83,091	103,289	88,704	77,533	49,193
Cost of revenues:					
Sale of products	23,115	22,977	13,399	12,590	11,322
Services and other	43,780	57,586	51,808	45,049	24,270
Total cost of revenues	66,895	80,563	65,207	57,639	35,592
Gross profit	16,196	22,726	23,497	19,894	13,601
Operating expenses:					
Research and development costs	680	—	—	—	72
Selling and marketing expenses	3,719	4,369	3,719	3,466	2,495
General and administrative expenses	14,979	12,407	10,995	6,710	5,138
Capital gain from sale of the propellers & parts businesses	(4,400)	-	-	-	-
Operating income	1,218	5,950	8,783	9,718	5,896
Financial income (expenses) net	149	1,174	701	(464)	(441)
Other income (expenses), net	-	(236)	*26,478	59	210
Income from operations before income taxes	1,367	6,888	35,962	9,313	5,665
Income taxes (benefit)	(765)	1,795	3,212	3,247	2,136
Share in income (loss) of an associated companies	(32)	674	—	—	—
Net income	2,100	5,767	*32,750	6,066	3,529
Net income attributable to non controlling interest	(347)	(1,499)	(771)	—	—
Net income attributable to TAT Technologies shareholders	\$ 1,753	\$ 4,268	\$ 31,979	\$ 6,066	\$ 3,529
Basic net income per share	\$ 0.22	\$ 0.65	\$ 5.04	\$ 1.00	\$ 0.58
Diluted net income per share	\$ 0.22	\$ 0.65	\$ 4.99	\$ 0.98	\$ 0.58
Weighted average number of shares used in computing basic net income per share	7,894	6,546	6,344	6,042	6,042
Weighted average number of shares used in computing diluted net income per share	7,894	6,566	6,408	6,163	6,087
Cash dividend per share	\$ 0.85	\$ —	\$ 0.40	\$ 0.20	\$ 0.18

\* Includes gain from Limco initial public offering of \$26,375,000.



**Balance Sheet Data:**

	As of December 31,				
	2009	2008	2007	2006	2005
			(audited)		
			(in thousands)		
Working capital	\$ 76,748	\$ 90,616	\$ 79,458	\$ 29,743	\$ 30,387
Total assets	124,491	135,930	113,407	66,237	60,565
Long-term liabilities, excluding current maturities	13,556	12,925	4,756	8,283	13,786
Shareholders' equity	\$ 94,866	\$ 76,077	\$ 72,793	\$ 39,720	\$ 34,861

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

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

***The aerospace industry is subject to significant government regulation and oversight, and TAT and its subsidiaries may incur significant additional costs to comply with these regulations.***

The aerospace industry is highly regulated in the United States and in other countries. TAT and its subsidiaries must be certified or accepted by the FAA, the United States Department of Defense, the European Aviation Safety Agency, or EASA, and similar agencies in foreign countries and by individual original equipment manufacturers, or OEMs, in order to manufacture, sell and service parts used in aircrafts. If any of the material certifications, authorizations or approvals of TAT or its subsidiaries are revoked or suspended, then the operations of TAT or its subsidiaries, as the case may be, will be significantly curtailed and TAT and its subsidiaries could be subjected to significant fines and penalties. In the future, new and more demanding government regulations may be adopted or industry oversight may be increased. TAT and its subsidiaries may have to incur significant additional costs to achieve compliance with new regulations or to reacquire a revoked or suspended license or approval, which could materially reduce profitability.

***TAT competes with a number of established companies in all aspects of TAT's business, many of which have significantly greater resources or capabilities than TAT does.***

For the OEM of heat transfer components, TAT's major competitors are other OEMs who manufacture heat transfer components, including the Hughes-Treidler division of Ametek Inc., Lytron Inc., Kintex, Niagra Thermal, Hamilton Sundstrand, Stewart Werner South Wind Corp., United Aircraft Products and Triumph Thermal Systems, manufacturers based in Europe such as I.M.I. Marston Ltd., Dunlop Aerospace (including Serck Aviation) and manufacturers based in Asia such as Sumitomo Precision Products from Japan. Some of TAT's competitors are far larger, have substantially greater resources, including technical, financial, research and development, marketing and distribution capabilities than TAT, and enjoy greater market recognition. These competitors may be able to achieve greater economies of scale and may be less vulnerable to price competition than TAT. TAT may not be able to offer its products as part of integrated systems to the same extent as its competitors or successfully develop or introduce new products that are more cost effective or offer better performance than those of its competitors. Failure to do so could adversely affect TAT's business, financial condition and results of operations.

A number of TAT's competitors have inherent competitive advantages. For example, TAT competes with the service divisions of large OEMs which in some cases have design authority with respect to their OEM products and are able to derive significant brand recognition from their OEM manufacturing activities. TAT also competes with the in-house service divisions of large commercial airlines, and there is a strong incentive for an airline to fully-utilize the services of its maintenance employees and facilities.

For the OEM of electric motion systems, TAT's major competitors are mainly large companies that provide standard products and companies that provide special customized solutions. As the providers of the systems usually tend to prefer local manufacturers for the purchase of the components, penetrating markets outside of Israel requires high levels of product innovation.

For the MRO services, TAT major competitors are the service divisions of OEMs, the in-house maintenance services of a number of commercial airlines and other independent service providers. For heat transfer component MRO services, our major competitors are the LORI Heat Transfer Center of Honeywell (Tulsa, Oklahoma), SECAN-Honeywell (France) and Drake Air – Ametek (Tulsa, Oklahoma). For APU and landing gear MRO services, our major competitors are Standard Aero Group Inc., Aerotech International Inc., Honeywell and AAR Corp.

Competition in the MRO market is based on price, quality, engineered solutions, ability to provide a broad range of services, turn-around time, and the ability to perform repairs and overhauls rapidly. A number of our competitors have inherent competitive advantages. For example, we compete with the service divisions of large OEMs who in some cases have design authority with respect to their OEM products and are able to derive significant brand recognition from their OEM manufacturing activities. We also compete with the in-house service divisions of large commercial airlines and there is a strong incentive for an airline to fully-utilize the services of its maintenance employees and facilities.

Further, TAT's competitors may have additional competitive advantages, such as:

- The ability to adapt more quickly to changes in customer requirements and industry conditions or trends;
- Greater access to capital;
- Stronger relationships with customers and suppliers;
- Greater name recognition; and
- Access to superior technology and marketing resources.

If TAT is unable to overcome these competitive disadvantages, then TAT's business, financial condition and results of operations would be adversely affected.

***TAT derives a substantial part of its revenues from several major customers. If TAT loses any of these customers or they reduce the amount of business they do with TAT, TAT's revenues may be seriously affected.***

Five customers accounted for approximately 18.3%, 25.4% and 21.9% of TAT's revenues for the years ended December 31, 2009, 2008 and 2007, respectively. TAT's major customers may not maintain the same volume of business with TAT in the future. If TAT loses any of these customers or they reduce the amount of business they do with TAT, TAT's revenues may be seriously affected.

***A substantial part of the revenues of TAT and its subsidiaries are from contracts with the U.S. and Israeli governments and are subject to special risks. A loss of all, or a major portion, of the revenues of TAT or any of its subsidiaries from government contracts could have a material adverse effect on TAT's operations.***

A substantial portion of the revenues of TAT and its subsidiaries are from contracts with the U.S. and Israeli governments. Sales to the U.S. and Israeli governments accounted for approximately 4.6%, 5.6% and 5.5% of TAT's revenues on a consolidated basis for the years ended December 31, 2009, 2008 and 2007, respectively.

Business with the U.S. and Israeli governments, as well as with the governments of other countries, is subject to risks which are not as relevant in business with private parties. These risks include the ability of the governmental authorities to unilaterally:

- Suspend TAT or any of its subsidiaries from receiving new contracts pending resolution of alleged violations of procurement laws or regulations;
- Terminate existing contracts, with or without cause, at any time;
- Reduce the value of existing contracts;
- Audit the contract-related costs and fees of TAT and its subsidiaries, including allocated indirect costs; and
- Control or prohibit the export of the products of TAT and its subsidiaries.

A decision by a governmental authority to take any or all of the actions listed above could materially reduce the sales and profitability of TAT and its subsidiaries. Most of the U.S. Government contracts of TAT and its subsidiaries can be terminated by the U.S. Government either for its convenience or if TAT or any of its subsidiaries defaults by failing to perform under the contract. Termination for convenience provisions generally provide only for the recovery of costs incurred or committed, settlement expenses and profit on the work completed by TAT and its subsidiaries prior to termination.

Declines in military budgets may result in reduced demand for the products and manufacturing services of TAT and its subsidiaries. Any decline could result in reduction in the business revenues of TAT and its subsidiaries and adversely affect their business, results of operations and financial condition.

***If TAT does not receive the governmental approvals necessary for the export of its products, TAT's revenues may decrease. Similarly if TAT's suppliers and partners do not receive their government approvals necessary to export their products or designs to TAT, TAT's revenues may decrease.***

Under Israeli law, the export of certain of the products and know-how of TAT is subject to approval by the Israeli Ministry of Defense. To initiate sales proposals with regard to exports of the products and know-how of TAT and to export such products or know-how, TAT must obtain permits from the Ministry of Defense. TAT may not be able to receive in a timely manner, or at all, all the required permits for which it may apply in the future.

Similarly, under foreign laws the export of certain military products, technical designs and spare parts require the prior approval of, or export license from, such foreign governments. In order to maintain the third party production, certain co-development activities and procurements required for the performance of certain contracts, TAT must receive detailed technical designs, products or product parts' samples from its strategic partners or suppliers. TAT may not be able to receive all the required permits and/or licenses in a timely manner, or at all. Consequently, TAT's revenues may decrease.

***TAT depends on a limited number of suppliers of components for its products and if TAT or any of its subsidiaries is unable to obtain these components when needed, they would experience delays in manufacturing their products and TAT's financial results could be adversely affected.***

TAT relies on a limited number of key suppliers for parts for its OEM and MRO services. Certain of these suppliers are currently the sole source of one or more components upon which TAT is dependent. Suppliers of some of these components require TAT to place orders with significant lead-time to assure supply in accordance with TAT's requirements. If TAT were to engage in a commercial dispute with or be unable to obtain adequate supplies of parts from these suppliers at commercially reasonable prices, TAT's operations could be interrupted. Increased costs associated with supplied materials or components could increase TAT's costs and reduce TAT's profitability if TAT is unable to pass these cost increases on to its customers.

***TAT may face increased costs and a reduced supply of raw materials. TAT may not be able to recoup future increases in the cost of raw materials or in electric power costs for its operations through price increases for its products.***

In recent years, the cost of raw materials used by TAT has fluctuated significantly due to market and industry conditions. The cost of electric power used in TAT's operations has also increased in the last several years. TAT may not be able to recoup future increases in the cost of raw materials or electric power costs through price increases for its products.

***TAT faces special risks from international sales operations which may have a material adverse effect on TAT's business, operating results and financial condition.***

In the years ended December 31, 2009, 2008 and 2007, approximately 76.3%, 83.5% and 91.7% of TAT's sales, respectively, resulted from TAT's international operations. This source of revenue is subject to various risks, including:

- Governmental embargoes or foreign trade restrictions;
- Changes in U.S. and foreign governmental regulations;
- Changes in foreign exchange rates;
- Tariffs;
- Other trade barriers; and
- Political, economic and social instability; and difficulties in accounts receivable collections.

Accordingly, TAT and its subsidiaries may encounter significant difficulties in connection with the sale of its products in international markets.

***TAT may engage in future acquisitions that could dilute TAT's shareholders' equity and harm TAT's business, results of operations and financial condition.***

TAT has pursued, and will continue to pursue, growth opportunities through internal development and acquisition of complementary businesses, products and technologies. TAT is unable to predict whether or when any prospective acquisition will be completed. The process of integrating an acquired business may be prolonged due to unforeseen difficulties and may require a disproportionate amount of TAT's resources and management's attention. TAT may not be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into its operations, or expand into new markets. Further, once integrated, acquisitions may not achieve comparable levels of revenues, profitability or productivity as TAT's existing business or otherwise perform as expected. The occurrence of any of these events could harm TAT's business, financial condition or results of operations. Future acquisitions may require substantial capital resources, which may require TAT to seek additional debt or equity financing.

Future acquisitions by TAT could result in the following, any of which could materially harm TAT's results of operations or the price of TAT's ordinary shares:

- Issuance of equity securities that would dilute TAT's shareholders' percentages of ownership;
- Large one-time write-offs;
- The incurrence of debt and contingent liabilities;
- Difficulties in the assimilation and integration of operations, personnel, technologies, products and information systems of the acquired companies;
- Diversion of management's attention from other business concerns;
- Contractual disputes;
- Risks of entering geographic and business markets in which TAT has no or only limited prior experience; and
- Potential loss of key employees of acquired organizations.

***Rapid technological changes may adversely affect the market acceptance of the products of TAT.***

The aerospace market in which TAT competes is subject to technological changes, introduction of new products, change in customer demands and evolving industry standards. The future success of TAT will depend upon its ability to keep pace with technological developments and to timely address the increasingly sophisticated needs of its customers by supporting existing and new technologies and by developing and introducing enhancements to its current products and new products. TAT may not be able to successfully develop and market enhancements to its products that will respond to technological change, evolving industry standards or customer requirements. TAT may experience difficulties that could delay or prevent the successful development, introduction and sale of such enhancements; and such enhancements may not meet the requirements of the market or achieve any significant degrees of market acceptance. If release dates of any new products or enhancements of TAT are delayed, or if when released, they fail to achieve market acceptance, TAT's business, operating results and financial condition would be materially adversely affected.



***TAT has fixed-price contracts with some of its customers and TAT bears the risk of costs in excess of its estimates.***

TAT has entered into multi-year, fixed-price contracts with some of its MRO and OEM customers. Pursuant to these contracts, TAT realizes all the benefits or costs resulting from any increases or decreases in the cost of providing services to these customers. Most of TAT's contracts do not permit TAT to recover for increases in raw material prices, taxes or labor costs. Any increase in these costs could increase the cost of operating the business of TAT and reduce its profitability. Factors such as inaccurate pricing and increases in the cost of labor, materials or overhead may result in cost over-runs and losses on those agreements. TAT may not succeed in obtaining an agreement of a customer to reprice a particular product, and may not be able to recoup previous losses resulting from incomplete or inaccurate engineering data.

***TAT depends on its key executives, and may not be able to hire and retain additional key employees or successfully integrate new members of its team and the loss of a key employee could have a material adverse effect on TAT's business.***

TAT's success will depend largely on its continued reliance on the experience and expertise of the senior management of TAT. Any of the senior managers of TAT may terminate his employment with TAT and seek employment with others who may seek his expertise. The loss of the expertise of any of the senior management of TAT through death, disability or termination of employment would have a material and adverse effect on TAT's business, financial condition and results of operations. TAT is not the beneficiary of life or disability insurance covering any of the executives, key employees or other personnel of TAT.

***TAT depends on its manufacturing and MRO facilities, and any material damage to these facilities may adversely impact TAT's operations.***

TAT believes that its results of operations will be dependent in large part upon its ability to manufacture and deliver OEM products and to provide MRO services promptly upon receipt of orders and to provide prompt and efficient service to its customers. As a result, any material disruption of TAT's day-to-day operations could have a material adverse effect on their business, customer relations and profitability. TAT relies on its Gedera, Israel, Kibbutz Marom-Golan, Israel, Kernersville and Winston-Salem, North Carolina and Tulsa, Oklahoma facilities for the production of its OEM products and provision of its MRO and parts services. A fire, flood, earthquake or other disaster or condition that significantly damaged or destroyed any of these facilities would have a material adverse effect on the operations of TAT.

***TAT uses equipment that is not easily repaired or replaced, and therefore material equipment failures could cause TAT or its subsidiaries to be unable to meet quality or delivery expectations of its customers.***

Many of the service and manufacturing processes of TAT are dependent on equipment that is not easily repaired or replaced. As a result, unexpected equipment failures could result in production delays or the manufacturing of defective products. The ability of TAT to meet the expectations of its customers with respect to on-time delivery of repaired components or quality OEM products is critical. The failure by TAT to meet the quality or delivery expectations of its customers could lead to the loss of one or more of its significant customers.

***TAT may fail to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002.***

The Sarbanes-Oxley Act of 2002 imposes certain duties on TAT and TAT's executives and directors. TAT's efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 governing internal controls and procedures for financial reporting, have resulted in increased general and administrative expense and a diversion of management time and attention, and TAT expects these efforts to require the continued commitment of significant resources. TAT may identify material weaknesses or significant deficiencies in its assessments of its 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 TAT's operating results, investor confidence in TAT's reported financial information and the market price of TAT's ordinary shares.

***TAT has potential exposure to liabilities arising under environmental laws and regulations.***

The business operations and facilities of TAT are subject to a number of federal, state, and local laws and regulations that govern the discharge of pollutants and hazardous substances into the air and water as well as the handling, storage and disposal of such materials and other environmental matters. Compliance with such laws as they relate to the handling, storage and disposal of hazardous substances is a significant obligation for TAT at each of its facilities. TAT would be subject to serious consequences, including fines and other sanctions, and limitations on the operations of TAT due to changes to, or revocations of, the environmental permits applicable to its facilities if it fails to comply. The adoption of new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new cleanup requirements could require TAT to incur costs and become subject to new or increased liabilities that could increase the operating costs of TAT and adversely affect the manner in which TAT conducts its business.

Under certain environmental laws, liability associated with investigation or remediation of hazardous substances can arise at a broad range of properties, including properties currently or formerly operated by TAT or any of its predecessors, as well as properties to which TAT sent hazardous substances or wastes for treatment, storage, or disposal. Costs and other obligations can arise from claims for toxic torts, natural resource and other damages, as well as the investigation and clean up of contamination at such properties. Under certain environmental laws, such liability may be imposed jointly and severally, so TAT may be responsible for more than its proportionate share and may even be responsible for the entire liability at issue. The extent of any such liability can be difficult to predict.

***TAT is exposed to potential liabilities arising from product liability and warranty claims.***

TAT's operations expose TAT to potential liabilities for personal injury or death as a result of the failure of an aircraft component that has been designed, manufactured, serviced or supplied by TAT. TAT believes that, in an effort to improve operating margins, some customers have delayed the replacement of parts beyond their recommended lifetime, which may undermine aircraft safety and increase the risk of liability of TAT and its subsidiaries.

There can be no assurance that TAT will not experience any material product liability losses in the future, that it will not incur significant costs to defend such claims, that its insurance coverage will be adequate if claims were to arise or that it would be able to maintain insurance coverage in the future at an acceptable cost. A successful claim brought against TAT or its subsidiaries in excess of its available insurance coverage may have a material adverse effect on TAT's business.

In addition, in the ordinary course of business of TAT, contractual disputes over warranties can arise. TAT may be subject to requests for cost sharing or pricing adjustments from its customers as a part of its commercial relationships with them, even though they have agreed to bear these risks.

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

*TAT's share price has been volatile in the past and may decline in the future.*

TAT's 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 TAT's control:

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

- Changes in the status of TAT's intellectual property rights;
- Announcements by third parties of significant claims or proceedings against us;
- Additions or departures of key personnel;
- Future sales of TAT's ordinary shares;
- De-listing of TAT's shares from the NASDAQ Global Market; and
- Stock market price and volume fluctuation.

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

***Substantial future sales of TAT's ordinary shares by TAT's principal shareholders may depress TAT's share price.***

TAT's principal shareholder, Isal Investment Ltd., or Isal, beneficially owns 53.7% of TAT's outstanding shares, of which 43.6% of TAT's outstanding shares are held directly by its subsidiary, TAT Industries Ltd. If Isal sells substantial amounts of TAT's ordinary shares or if the perception exists that TAT's principal shareholders may sell a substantial number of TAT's ordinary shares, the market price of TAT's ordinary shares may fall. Any substantial sales of TAT's shares in the public market also might make it more difficult for TAT to sell equity or equity-related securities in the future at a time, in a place and on terms TAT deems appropriate.

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

*Because TAT has significant operations in Israel, TAT may be subject to political, economic and other conditions affecting Israel that could increase TAT's operating expenses and disrupt TAT's business.*

TAT is incorporated under the laws of Israel, and TAT's executive offices, manufacturing plant and research and development facilities are located in, the State of Israel. As a result, political, economic and military conditions affecting Israel directly influence TAT. 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 have a material adverse effect on TAT's business, financial condition and results of operations.

Since the establishment of the State of Israel in 1948, Israel and its Arab neighbors have engaged in a number of armed conflicts. A state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Major hostilities between Israel and its neighbors may hinder Israel's international trade and lead to economic downturn. This, in turn, could have a material adverse effect on TAT's operations and business. There has been an increase in unrest and terrorist activity in Israel, which began in September 2000 and which has continued with varying levels of severity. The future effect of this deterioration and violence on the Israeli economy and TAT's operations is unclear. Since June 2007, when Hamas effectively took control of the Gaza Strip, there have been extensive hostilities along the Gaza Strip. Ongoing violence between Israel and the Palestinians as well as tension between Israel and the neighboring Syria and Lebanon may have a material adverse effect on TAT's business, financial conditions and results of operations.

Furthermore, there are a number of countries, primarily in the Middle East, as well as Malaysia and Indonesia, that restrict business with Israel or Israeli companies, and TAT is precluded from marketing its products to these countries. Restrictive laws or policies directed towards Israel or Israeli businesses may have an adverse impact on TAT's operations, TAT's financial results or the expansion of TAT's business.

*TAT may be adversely affected by a change in the exchange rate of the NIS against the dollar. Because exchange rates between the NIS and the dollar fluctuate continuously, exchange rate fluctuations, particularly larger periodic devaluations, may have an impact on TAT's profitability and period to period comparisons of TAT's results.*

TAT's financial statements are stated in dollars, while a portion of TAT's expenses, primarily labor expenses, is incurred in NIS and a part of TAT's revenues are quoted in NIS. Additionally, certain assets, as well as a portion of TAT's liabilities, are denominated in NIS. Because exchange rates between the NIS and the dollar fluctuate continuously, exchange rate fluctuations, particularly larger periodic devaluations, may have an impact on TAT's profitability and period to period comparisons of TAT's results. TAT's results may be adversely affected by the devaluation of the NIS in relation to the dollar (or if such devaluation is on a lagging basis), if TAT's revenues in NIS are higher than TAT's expenses in NIS and/or the amount of TAT's assets in NIS are higher than TAT's liabilities in NIS. Alternatively, TAT's results may be adversely affected by an appreciation of the NIS in relation to the dollar (or if such appreciation is on a lagging basis), if the amount of TAT's expenses in NIS are higher than the amount of TAT's revenues in NIS and/or the amount of TAT's liabilities in NIS are higher than TAT's assets in NIS.

*TAT's results of operations may be negatively affected by the obligation of its personnel to perform military service.*

Many of TAT's employees and some of TAT's directors and officers in Israel are obligated to perform annual reserve duty in the Israeli Defense Forces and may be called for active duty under emergency circumstances at any time. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. TAT's operations could be disrupted by the absence for a significant period of one or more of TAT's executive officers or key employees or a significant number of other employees due to military service. Any disruption in TAT's operations could adversely affect TAT's business.

***Your rights and responsibilities as a shareholder will be governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.***

TAT is incorporated under Israeli law. The rights and responsibilities of holders of TAT's ordinary shares are governed by TAT's memorandum of association, 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, each shareholder of an Israeli company has a duty to act in good faith and in a customary manner 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 in shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder 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 shareholder vote or who has the power to appoint or prevent the appointment of a director or officer in the company, has a duty of fairness toward the company. However, Israeli law currently does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revision in recent years, there is relatively little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

***Israeli law may delay, prevent or make difficult an acquisition of TAT, which could prevent a change of control and, therefore, depresses the price of TAT's shares.***

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential transactions unappealing to TAT or to some of TAT's shareholders. These provisions of Israeli law may delay, prevent or make difficult an acquisition of TAT, which could prevent a change of control and therefore depress the price of TAT's shares.



***Investors and TAT's shareholders generally may have difficulties enforcing a U.S. judgment against TAT, TAT's executive officers and directors or asserting U.S. securities laws claims in Israel.***

TAT is incorporated in Israel and all of TAT's executive officers and directors reside outside the United States. Service of process upon them may be difficult to effect within the United States. Furthermore, many of TAT's assets and most of the assets of TAT's executive officers and directors are located outside the United States. Therefore, a judgment obtained against TAT or any of them in the United States, including one based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not be enforced by an Israeli court. It also may be difficult for you to assert U.S. securities law claims in original actions instituted in Israel. However, subject to certain time limitations and other conditions, Israeli courts may enforce final judgments of United States courts for liquidated amounts in civil matters, including judgments based upon the civil liability provisions of those and similar acts.

***As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, TAT 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, TAT is permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Marketplace Rules. A foreign private issuer that elects to follow a home country practice instead of such 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 Securities and Exchange Commission or on its website each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. As a foreign private issuer listed on The NASDAQ Capital Market, TAT may follow TAT's home country law, instead of the NASDAQ Marketplace Rules, which require that TAT 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 TAT, certain transactions other than a public offering involving issuances of a 20% or more interest in TAT and certain acquisitions of the stock or assets of another company.

**Item 4. Information on the Company**

**History and Development of TAT**

TAT was incorporated under the laws of the State of Israel in April 1985 under the name Galaxy Graphics Ltd. TAT changed its name to Galagraph Ltd. in August 1986 and to TAT Technologies Ltd. in May 1992. TAT is a public limited liability company under the Israeli Companies Law 1999-5759, or the Israeli Companies Law, and operates under this law and associated legislation. TAT's registered offices and principal place of business are located at Re'em Industrial Park, Neta Boulevard, Bnei Ayish, Gedera 70750, Israel and its telephone number is +972-8-8268-500. TAT's address on the Internet is [www.tat-technologies.com](http://www.tat-technologies.com). The information on TAT'S website is not incorporated by reference into this annual report.

TAT was founded in 1985 to develop the computerized systems business of its parent company, TAT Industries Ltd. (or TAT Industries), a publicly held Israeli corporation engaged in the manufacture and sale of aeronautical equipment. In December 1991, TAT acquired the heat exchanger operations of TAT Industries and in February 2000, TAT entered into an agreement to purchase the operations of TAT Industries relating to the manufacture of aviation accessories and to lease certain of its properties.

In March 1987, TAT completed the initial public offering of its securities in the United States. TAT was listed on the NASDAQ Global Market (then known as the NASDAQ National Market) from its initial public offering until July 1998 when the listing of TAT's ordinary shares was transferred to the NASDAQ Capital Market. On June 24, 2009 TAT's, ordinary shares resumed trading on the NASDAQ Global Market. Since August 2005 TAT's shares have been traded also on the TASE.

TAT is a provider of a variety of services and products to the commercial and military aerospace and defense industries through its Gedera facility, as well as through its subsidiaries, Bental, in Israel, and Limco in the U.S.

Limco provides maintenance, repair and overhaul, or MRO, services to the aerospace industry. Limco's Federal Aviation Administration, or FAA, certified repair stations (located in Oklahoma and in North Carolina) provide aircraft component MRO services for airlines, air cargo carriers, maintenance service centers and the military. In addition to Limco's MRO services Limco is also an original equipment manufacturer, or OEM, of heat transfer equipment for airplane manufacturers and other selected related products.

In July 2005, Limco acquired Piedmont Aviation Component Services, Inc. ("Piedmont"), a company certified by the FAA to perform maintenance, repair and overhaul services on APUs, propellers and landing gears.

In July 2007, Limco, completed an initial public offering of its shares of common stock and Limco's shares were listed on the NASDAQ Global Market (symbol: LIMC) until July 2, 2009, when TAT acquired all of the publicly held shares of Limco (approximately 32% of Limco's total shares) in a stock for stock merger. As a result of such merger, Limco again became a wholly-owned subsidiary of TAT.

Following a series of transactions described below, TAT had acquired 70% control in Bental:

On March 27, 2008, TAT entered into an agreement with Bental Investments Cooperative Agricultural Society Ltd., ("Bental Investments"), to purchase from it 27% of the then outstanding shares of Bental, together with a call and put option for an additional 18% of the outstanding shares of Bental held by Bental Investments. The call option was for a period of four years commencing January 1, 2009, for an exercise price of \$2,250,000, and the put option was for a period of two years commencing January 1, 2011, for \$2,138,000 (both subject to certain exchange rate adjustments). The exercise prices carried interest of 2% per annum.

On April 15, 2008, TAT entered into an agreement to purchase an additional 10% of the outstanding shares of Bental from Mivtach Shamir Investments (1993) Ltd., ("Mivtach"), subject to the completion of the acquisition from Bental Investment.

The foregoing transactions with Bental Investments and Mivtach were consummated on May 21, 2008, as a result of which TAT paid in cash a total of \$5,144,000.

On August 18, 2008, following the approval of the shareholders meeting of TAT Industries (our parent company), TAT acquired an additional 15% shareholding in Bental from TAT Industries for a cash consideration of \$1,893,000.

On March 30, 2009, the call option mentioned above was exercised for \$2.34 million.

The acquisition of Bental shares was financed by loans in a total amount of \$6.25 million received from Bank Mizrahi and TAT's internal resources.

The agreement with Bental Investment provides for the payment of additional consideration by TAT, in the event that during the three year period following the closing of the transaction TAT consummates an "exit," as such term is defined in the agreement. The consideration for the shares and call option shares (if purchased) is equal to a certain percentage of the difference between the price per share that TAT paid for such shares and the price per share paid in the exit transaction (30% if the exit is within one year of the closing, 20% if the exit is within two years of the closing and 10% if the exit is within three years of the closing).

On December 19, 2007, Isal Amlat Industries (1994) Ltd. ("**Isal Industries**") purchased the controlling interests in TAT and in TAT Industries, TAT's controlling shareholder, by purchasing from Mr. Shlomo Ostersetzer, the former Chairman of TAT's Board of Directors and TAT's former President, Mr. Dov Zeelim, the former Vice Chairman of TAT's Board of Directors and TAT's former Chief Executive Officer, and FIMI Opportunity Fund, or FIMI, 10% of TAT's then outstanding ordinary shares for consideration of NIS 50.4M, and 54% of TAT Industries' then outstanding ordinary shares for consideration of NIS 105.3M.

The agreement between Isal Amlat and Mr. Zeelim, as amended on January 31, 2008, provided Isal Amlat with additional shares in TAT Industries purchased from Mr. Zeelim.

Pursuant to an agreement between Isal Amlat and Mr. Zeelim entered into in May 2008 in connection with Mr. Zeelim's resignation from the office of Chief Executive Officer of TAT, Mr. Zeelim exercised his put option on June 12, 2008 and 4.17% of TAT Industries' then outstanding ordinary shares were purchased by Isal Amlat.

On July 17, 2008 Isal Amlat and FIMI amended the terms of their agreement. Accordingly, 141,443 of TAT's ordinary shares constituting then 2% of TAT's outstanding shares were purchased by Isal Amlat in December 2008 at a price per share of \$19.343 and the remaining 100,000 of TAT's ordinary shares constituting then 1.1% of TAT's outstanding shares were purchased by Isal Amlat in November 2009 for a total consideration of USD 2 M.

On March 11, 2009 and on August 13, 2009, TAT's board of directors authorized its management to enter into engagements with Oppenheimer Israel Investment House for the blind trust purchase of TAT's shares under rule 10b5-1 of the Securities Exchange Act of 1934. The first purchase plan was terminated on March 26, 2009, with TAT having purchased 4,650 ordinary shares for an aggregate price of \$26,000. The second purchase plan authorized Oppenheimer Israel to purchase shares of TAT in the aggregate amount of up to \$2 million (approximately NIS 7.8 million) over a period of six months and at a price not exceeding \$9 per share. As of December 31, 2009, 253,390 ordinary shares were purchased, representing about 2.8% of the Company's share capital in consideration of approximately \$2 million (an average of \$7.90 per share). The purchased shares became dormant as defined in the Companies Law.

On December 4, 2009, TAT's indirect subsidiary, Piedmont, acquired 5,766,667 Class B Common shares of FAvS representing 37% of FAvS's share capital on a diluted basis and \$750,000 of FAvS Preferred Shares (entitling Piedmont to cash dividends at an annual rate of 12% payable quarterly or at the discretion of FAvS to PIK dividends payable in additional Preferred Shares at an annual rate of 15%). In consideration for such shares, Piedmont transferred to FAvS its propeller and parts businesses and guaranteed for a period of up to two years up to \$7 million of the bank debt incurred by FAvS to fund the transaction described in the next paragraph. FAvS is a provider of products and services for the global aviation industry and provides supply chain management services and maintenance and repair services for various wheels, brakes and starter/generators.

As part of the transaction described above, FAvS also acquired all the assets and liabilities of Kelly Aerospace Turbine Rotables ("KATR") for a cash consideration of \$7 million.. KATR specializes in renovation and repair of landing gear, safety equipment and hydraulic and electrical components for corporate, regional and military aircraft.

FAvS' shares are quoted over the counter (OTC) at the NASDAQ stock market. FAvS' share value as of the closing date (December 4, 2009) and as of December 31, 2009 was \$0.89 and \$0.75, respectively. TAT believes that the share value does not reflect the fair value of FAvS' share, because the extremely low trading volume in FAvS' shares does not reflect an active market. Therefore the fair value of FAvS was based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers. According to the appraisal, FAvS' fair value amounted to \$22.549 million as of November 30, 2009. As a result of the sale of Piedmont's propeller and spare parts businesses, TAT recorded a capital gain in the amount of approximately \$4.4 million in its statement of income.

## **A. Business Overview**

### **Overview**

TAT provides a variety of services and products to the commercial and military aerospace and defense industries and operates under three segments: (i) OEM of Heat Transfer products (ii) OEM of Electric Motion Systems; and (iii) MRO services, each with the following characteristics.

TAT's activities in the field of OEM of Heat Transfer products primarily relate to its Gedera facility and include (i) the design, development, manufacture and sale of a broad range of heat transfer components (such as heat exchangers, pre-coolers and oil/fuel hydraulic coolers) used in mechanical and electronic systems on-board commercial, military and business aircraft; (ii) the manufacture and sale of environmental control and cooling systems and (iii) a variety of other electronic and mechanical aircraft accessories and systems such as pumps, valves, power systems and turbines.

TAT's activities in the field of OEM of Electric Motion Systems primarily relate to its subsidiary, Bental, and include the design, development, manufacture and sale of a broad range of electrical motor applications for airborne and ground systems. TAT activities in this segment commenced with the acquisition of Bental in August 2008.

TAT's MRO services primarily relate to its subsidiary, Limco, and include the maintenance, repair and overhaul of heat transfer equipment and other aircraft components, APU's, and landing gear. Limco operates FAA certified repair stations, which provide aircraft component MRO services for airlines, air cargo carriers, maintenance service centers and the military.

As mentioned above under 'History and Development of TAT', Limco's Parts services division, operated until December 4, 2009, when it was sold to FAvS.

FAvS, together with its subsidiaries, is one of the leading suppliers of aircraft parts and components to the aviation industry worldwide, and is a provider of third party logistics and inventory management services to the aerospace industry. FAvS distributes the products of over 150 parts and component manufacturers and suppliers. In addition, FAvS offers maintenance, repair and overhaul services through three Federal Aviation Administration authorized facilities. Customers of FAvS include passenger and cargo airlines, general aviation, and military operators.

### ***OEM of Heat Transfer Products***

TAT provides OEM of Heat Transfer products and services, primarily through its Gedera facility, to the aerospace and defense industries. The main OEM activity of Gedera is the manufacture of a complete line of heat transfer components, including heat exchangers, pre-coolers, oil coolers and cold plates, or heat transfer components. Heat transfer components facilitate the necessary removal and dissipation of heat generated during the operation of mechanical and electronic systems. Gedera's heat transfer components are generally integrated into a complete cooling system. Using Gedera's technological expertise, Gedera designs each of its heat transfer products to meet the specific space, power, performance and other needs of its customers. Gedera's heat transfer components are marketed worldwide for applications in commercial and military aircraft and electronic systems, the primary users of such equipment. Gedera's customers include Liebherr-Aerospace Toulouse S.A., or Liebherr, Boeing McDonnell Douglas Aerospace, or Boeing, Israel Aircraft Industries, or IAI, and Cessna Aircraft Company, or Cessna, Cirrus Aircraft Inc., or Cirrus, Pilatus Aircraft Ltd, or Pilatus, Embraer Empresa Brasileira de Aeronáutica S.A., or Embraer, as well as the United States Air Force and Navy. Such customers typically enter into supply contracts with Gedera pursuant to which Gedera manufactures specified heat transfer components in connection with the customers' production or retrofitting of particular aircraft equipment. Such supply contracts are generally long term engagements that may have terms of ten years or more.

As part of its OEM activities, Gedera is also engaged in the design, development and manufacture of complete environmental control systems and cooling systems. This product line principally includes ground cooling systems (used in military facilities, tents, vehicles and other military applications) and Vaport Cycle air conditioning systems (or ECS — Environmental Cooling Systems) used in light aircrafts.

In addition, Gedera designs, develops and manufactures aviation and flow control accessories. These accessories include fuel components, such as valves and pumps, secondary power systems, various instrumentation and electronic assemblies. Customers for Gedera's aviation accessories include Lockheed-Martin Corp, Teledyne Continental Motors, the Israeli Air Force, IAI, as well as the United States Air Force and Navy.

Gedera relies on highly qualified personnel and strong engineering, development and manufacturing capabilities that enable it to support its customers from the early stages of development of their product and system specifications.

TAT estimates the size of the markets in which Gedera operates to be significant based on the scope of development projects and purchasing processes of its customers. Many of the projects Gedera is engaged in are lengthy and complex, which account for its long term supplier relationships and the customer loyalty it enjoys. TAT plans to expand its Gedera operations in the OEM segment, among other things, by transitioning from the manufacture of stand alone components to the development and manufacture of complete systems.

Gedera also provides limited MRO services for military and commercial customers, mainly for aviation accessories as well as for certain heat transfer components. Gedera currently overhauls emergency power systems, hydrazine tanks, jet fuel starters, and cooling turbines and valves for F-16's. In addition, Gedera overhauls anti-icing valves and starters for the Apache helicopter. Customers for Gedera's MRO services include the Israeli Air Force, IAI, NATO, as well as the United States Air Force and Navy.

#### ***OEM of Electric Motion Systems***

Through its subsidiary, Bental, TAT is also an OEM of a wide range of innovative electric motion systems for the defense, aerospace and industrial markets. Bental designs and manufactures high performance, high precision motion systems and sub-systems that operate under challenging conditions. Bental specializes in innovative motion technologies such as brush and brushless motors, permanent magnet generators, electronic drivers and controllers, servo actuators, stabilized payload systems and more. Bental's products are integrated into various platforms and applications, including turret and gun control systems for armored fighting vehicles (AFVs), unmanned armed vehicles (UAVs), missiles, jet engines, cryogenic coolers for thermal imaging systems, optical systems, rotational drives for large antennae pedestals and more.



Bental is a certified supplier to IAI, Rafael, Raytheon, Elbit Systems, Pall Aeropower, Kodak (Creo), IBM, Galileo Avionica and others. Bental targets both the military and the commercial markets. Bental's customers include military forces, defense industries, commercial manufacturers of military equipment, commercial airlines, aircraft manufacturers, and other manufacturers of machinery. Bental targets the market for aviation applications and the market for ground applications. TAT estimates the size of Bental's market for its products to be significant based on the scope of development projects and purchasing processes of its customers. Many of the projects Bental is engaged in are lengthy and complex, which account for its long term supplier relationships and the customer loyalty it enjoys.

Bental's products have to comply with severe performance requirements, environmental conditions, quality assurance and industry standards. Bental usually manufactures relatively small series of products, custom designed for specific customer orders. Bental's products are designed either of its own initiatives or pursuant to customer specifications. Bental relies on highly qualified personnel and strong engineering, development and manufacturing capabilities that enable it to support its customers from the early stages of development of their product and system specifications.

Bental plans to expand its OEM operations, among other things, by transitioning from the manufacture of stand alone components to the development and manufacture of complete systems.

#### ***Maintenance, Repair and Overhaul (MRO) Services***

Through its subsidiary, Limco, TAT also provides MRO services to the aerospace industry. Limco's FAA certified repair stations provide aircraft component MRO services for airlines, air cargo carriers, maintenance service centers and the military. Limco specializes in MRO services for components of aircraft, such as heat transfer components, APUs, landing gear and pneumatic ducting. Generally, manufacturer specifications, government regulations and military maintenance regimens require that aircraft components undergo MRO servicing at regular intervals or as necessary. Aircraft components typically require MRO services, including repairs and installation of replacement units, after three to five years of service or sooner if required. Aircraft manufacturers typically provide warranties on new aircraft and their components and subsystems, which may range from one to five years depending on the bargaining power of the purchaser. Warranty claims are generally the responsibility of the OEM during the warranty period. Limco's business opportunity usually begins upon the conclusion of the warranty period for these components and subsystems. Limco's customers include major US domestic and international airlines, air cargo carriers, maintenance service centers, commercial and military aircraft manufacturers and defense contractors and the U.S. government (Army and Air forces). Such customers typically enter into MRO contracts with Limco which are generally long term engagements that may have terms of one to ten years or more.

Limco is licensed by leading OEMs of aerospace products to provide MRO services for their systems. For example, Limco is licensed by Hamilton Sundstrand, to provide MRO services for all of its air-to-air heat transfer products and by Honeywell to provide MRO services for three of its APU models. Limco's repair stations are certified by the FAA and the European Aviation Safety Agency, or EASA. In addition to its MRO services, Limco also manufactures heat transfer equipment used in commercial, regional, business and military aircraft, complete environmental control systems and cooling systems for electronics.

### **Business Strategy**

TAT's principal strategy is as follows:

- **Enhancing OEM Capabilities** — TAT, through Gedera and Bental, intends to capitalize on its technical expertise, experience and reputation in the markets of heat management solutions and electrical motion systems, to expand the scope of its OEM offerings both in the airborne and ground segments, for the commercial and defense industries. TAT also intends to transition from the manufacture of single components to the development and manufacture of complete systems.
- **Expand the scope of MRO services** - TAT's goal is to use its technical expertise, engineering resources and facilities to provide MRO services for additional types of aircraft and additional aircraft systems, subsystems and components and intends to develop the required technical expertise to provide these additional MRO services.
- **Increasing Market Share** — TAT plans to continue its aggressive marketing efforts for new customers as well as to enhance its activities with its flagship customers. As part of TAT's efforts to achieve greater penetration in the international markets, TAT intends to expand its marketing presence in Western Europe, which is TAT's second largest market, and to substantially increase its presence in Asian and South American nations, which are fast growing markets where TAT has had limited sales to date.

- **Effective synergy among group members** — TAT plans to enhance the synergies between its various businesses by, among other things, using Gedera's OEM design capabilities to provide Limco enhanced capabilities to repair heat exchanger systems and components, enabling Limco to compete more effectively in the industry and by supplying to Limco heat exchanger components which should enable Limco to reduce prices on cores. In addition, TAT believes that its acquisition of Bental provides it significant growth potential and plans to capitalize on its affiliation with Bental by penetrating new markets such as the market for ground base systems and introducing technologically innovative products to its existing customers.
- **Organic growth and M&A** — In addition to growing the existing businesses of Gedera, Limco and Bental, TAT also believes that additional acquisition opportunities exist that will complement its OEM and MRO businesses. TAT will continue to pursue targeted complementary business acquisitions which will broaden the scope and depth of its OEM and MRO operations and increase its market share.

## **Products and Services**

### ***OEM of Heat Transfer Products***

Through its Gedera's subsidiary, TAT manufactures a wide range of heat transfer components used in aircraft, air conditioning systems, complete environmental control systems and cooling systems for electronics for military uses. These parts are manufactured in compliance with all of the stringent quality assurance standards that apply to the manufacture of aircraft parts. Gedera's quality systems comply with ISO 9001, AS9100, Boeing quality systems approval D6-82479 and FAR 21.303 (the FAA standard for Parts Manufacturer Approval).

#### ***Heat transfer components***

Gedera manufactures a wide range of heat transfer components. Gedera specializes in the design and manufacturing of highly efficient, compact and reliable heat transfer components that are designed to meet stringent constraints such as size, weight and applicable environmental conditions. Heat transfer components, such as heat exchangers, precoolers, evaporators, oil coolers and cold plates, are integral components of a wide variety of environmental control systems and mechanical and engine systems, as well as a wide range of electronic systems. These systems generate heat during operation that must be removed and dissipated. Heat transfer components facilitate the exchange of the heat created through the operation of these systems by transmitting the heat from a hot medium (air, oil or other fluids) to a cold medium for disposal.

In the aerospace industry, there is a constant need for improvements in performance, weight, cost and reliability. In addition, as electronic systems become smaller and more densely packed, the need for sophisticated and efficient heat transfer components to provide the cooling functions becomes more critical. Using Gedera's technological expertise, TAT believes it is well positioned to respond to these industry demands through continued new product development and product improvements.

Gedera's principal heat transfer components products include air-to-air heat exchangers and precoolers and liquid-to-air heat exchangers. Typically, the air-to-air heat exchangers and precoolers cool a jet engine's hot "bleed air" which, when cooled, is then used in the aircraft's air conditioning, pressurization and pneumatic systems. The liquid-to-air heat exchangers cool liquids such as engine oil, hydraulic oil and other liquid coolants used in other systems.

Gedera provides one to all of the different types of heat transfer components in certain aircraft. Wide body planes generally require seven different types of heat transfer components, while regional aircraft and helicopters contain approximately three types. Gedera's heat exchangers and precoolers are generally sold for between \$1,000 and \$20,000 per unit. A substantial portion of Gedera's heat transfer components are sold to customers in connection with the original manufacture or retrofitting of particular aircraft equipment. Gedera generally enters into long-term supply contracts with its customers, which require Gedera to supply heat transfer components as part of a larger project.

Gedera also manufactures heat dissipation equipment, such as evaporators, cold plates, cooling chests, heat sinks and cold walls (which may be air-to-air, liquid-to-air or liquid-to-liquid), which control and dispose of heat emitted by the operation of various electronic systems. These heat dissipation products are currently utilized mainly in radar systems, avionics, electronic warfare systems and various pods for targeting, navigation and night vision.

Gedera's customers for heat transfer components include: Liebherr, Boeing, IAI, Cessna, Bell Helicopter, or Bell, and Raytheon Aircraft Company, or Raytheon, as well as the United States Air Force and Navy. As a result of the specialized nature of the systems in which Gedera's parts are included, spare and replacement parts for the original heat transfer systems are usually provided by Gedera.

#### *Aviation and flow control accessories*

Gedera is also engaged in the design, development and manufacture of aviation and flow control accessories. These accessories include fuel component systems, such as valves and pumps, secondary power systems, various instrumentation and electronic assemblies. Gedera's customers for the design, development and manufacture of aviation and flow control accessories include Lockheed-Martin, Boeing, Teledyne, the Israeli Air Force, IAI, as well as the U.S. Air Force and Navy.

#### *Cooling and air-conditioning systems*

Gedera is also engaged in the design, development and manufacture of complete environmental control systems and cooling systems. This product line includes ground cooling systems used in military facilities, tents, vehicles and other military applications. It also includes Vapor Cycle air conditioning systems (or ECS — Environmental Cooling Systems) used in light aircraft. Gedera offers mobile cooling and air conditioning solutions for military applications such as mobile command and control units, command and control vehicles, armored vehicles, mobile broadcast units, mobile hospitals, etc. In addition, Gedera offers air conditioning systems for light airplanes and helicopters, either as part of the development process of new aircraft or as an upgrade for existing aircraft. Gedera designs, develops and manufactures the air conditioning systems based on customer specifications, while providing a complete engineering solution in compliance with strict military and civil standards. Gedera's systems are used for military applications in Israel and abroad and are tested under strict standards and in battle field proven conditions.

### ***OEM of Electric Motion Systems***

TAT conducts significant OEM operations in the area of Electric Motion System through its Bental subsidiary in Israel. Bental designs, develops and manufactures a wide range of innovative motion systems and other electro-mechanical solutions for the defense, aerospace and industrial markets. Bental's primary product lines are electric motors, actuators and alternators, and include the following list of products: customized electrical motors, alternators, drivers, actuators, stabilized payload control systems, propulsion motors, starter generators, blowers, turret & gun control system motors and more. Such products are integrated into various platforms and applications such as turret & gun control systems and other systems of military ground vehicles, unmanned aerial vehicle (UAV's), missiles, jet engines, cryo-coolers for thermal imaging systems, optical systems, rotational drives for large antennae pedestals, medical equipment, semi conductor industry process, testing and quality assurance equipment, large printing machines and diamond polishing spindles. Bental's customers include IAI, Rafael, Raytheon, Elbit Systems, Pall Aeropower, Kodak (Creo), IBM, Galileo Avionica and others. Bental's products are manufactured based on customer specifications, often with special performance requirements which are suited for extreme environmental conditions for military and commercial applications. Bental's products are manufactured in compliance with ISO 9001-2000 and are subject to strict quality control and inspection procedures that are carried out through all steps of design and manufacture.

### ***Electric Motors***

Bental develops, designs and manufactures different types of electric motors for use in an array of motion systems which are designed to comply with special performance requirements and be suitable for extreme environmental conditions for military ground equipment and remote-piloted vehicle applications. Bental also develops, designs and manufactures electric motors for special uses for customers in the commercial segment. In addition, Bental provides maintenance and repair services for the equipment manufactured by it. Bental also imports mass produced motors in large quantities pursuant to special orders from its customers in Israel.

#### *Actuators*

Bental develops, designs and manufactures an array of actuators for unmanned aerial vehicles and remote-piloted vehicle and other aerospace applications, to comply with special performance requirements and extreme environmental conditions.

Bental's Rotary Servo Actuator (RSA) systems are developed with tactical UAV manufacturers in mind. The RSA systems are high performance, low-weight compact servo actuators used for various aviation and UAV applications. The systems include motor, reduction gear, feedback sensor and electronic servo control & amplifier.

#### *Alternators*

Bental develops, designs and manufactures different types of alternators for automatic pilot and other military applications, to comply with special performance requirements and extreme environmental conditions.

The product line of brushless direct current alternators is based on rare earth magnet technology. The systems are capable of supplying very high power. The alternator product family is designed to serve aerospace and other defense applications. Bental's systems are comprised of the alternator and Generator Control Unit (GCU).

#### ***Limco's Maintenance, Repair and Overhaul (MRO) Services***

##### *MRO Services*

The demand for MRO services is driven by the size and age of the aircraft fleet, aircraft utilization and regulations by the FAA and other governmental authorities.

Due to the increased maintenance costs of their aging fleets many carriers are seeking ways to reduce costs, minimize down-time, increase aircraft reliability and extend time between overhauls. One of the ways they are accomplishing these goals is through the outsourcing of more of their maintenance and support functions to reliable third parties. Limco also believes that commercial carriers who have made the decision to outsource their MRO requirements are searching for MRO service providers with a wide-range of service capabilities. These MRO service providers allow the carriers to concentrate their outsourcing of MRO services to a select group of third party providers. The global military aircraft fleet also presents similar opportunities for MRO service providers. Recent military operations around the world have significantly increased usage of the global military aircraft fleet and resulted in a higher rate of maintenance activity. Limco believes that an aging military fleet and the increased use of upgrade programs aimed at extending the useful life of aircraft will provide continued MRO growth opportunities.

Limco specializes in the repair and overhaul of heat transfer components, APUs, landing gear and pneumatic ducting. Heat transfer components are devices that efficiently transfer heat from one fluid to another or from hot air to colder air in various cooling systems and are essential components of an aircraft. These components include heat exchangers, oil coolers, pre-coolers, re-heaters, condensers, water separators and evaporators. APUs are relatively small, self-contained generators used to start jet engines, usually with compressed air, and to provide electricity, hydraulic pressure and air conditioning while an aircraft is on the ground. In many aircraft, an APU can also provide electrical power during in-flight emergency situations.

Limco is continually increasing its MRO capabilities based upon market need or customer request. Limco's capabilities include components used in aircraft manufactured by the following aircraft manufacturers:

- |                     |                    |
|---------------------|--------------------|
| ● Airbus            | ● Fairchild        |
| ● ATR               | ● Fokker           |
| ● Boeing            | ● General Dynamics |
| ● Bombardier        | ● Gulfstream       |
| ● British Aerospace | ● Lockheed Martin  |
| ● Cessna            | ● Raytheon         |
| ● Embraer           | ● SAAB             |
| ● Shorts            |                    |

One of Limco's operational strengths and competitive advantages is the close cooperation with TAT's Gedera facility. Through Gedera's core manufacturing capabilities and engineering expertise, Limco enjoys a constant supply source of cores of the highest quality necessary in order to performing its MRO services for Heat Exchangers. In addition Limco benefits from Gedera's vary engineering capabilities relevant to Limco's Heat Transfer services.



During 2009 Limco performed MRO services at its repair stations in Oklahoma and North Carolina, all of which are AS9001 certified and licensed by the FAA and EASA to provide MRO services. Limco's Oklahoma facilities provided MRO services for heat transfer components and pneumatic air-handling ducting. Limco's North Carolina facilities, which were recently ISO 9001 certified, provide MRO services for APUs and landing gear.

Limco offers MRO services for heat transfer components to its customers on multiple levels. If the damage is significant, Limco will remanufacture the unit, which generally entails replacing the core matrix of the damaged or old heat transfer product in lieu of replacing the entire unit with a new one. Limco designs and develops these customized remanufactured units as a cost effective alternative to new part replacement. In the event of less severe damage, Limco will either overhaul or repair the unit as necessary. Remanufactured units carry warranties identical to those provided to new units.

Limco specializes in providing fast and efficient quality repair and overhaul of pneumatic air-handling ducting that is used in airframes, air conditioning systems, anti-icing systems, APUs, engines and exhaust systems. Limco also specializes in providing MRO services for four APU models manufactured by Honeywell and in providing MRO services for landing gear for regional aircraft manufactured by Bombardier Canadair Regional Jet, ATR, British Aerospace Jet Stream and Bombardier Dash 8.

#### *OEM Authorizations and Licenses*

Limco believes that establishing and maintaining relationships with OEMs is an important factor in achieving sustainable success as an independent MRO service provider. OEMs grant participants in the overhaul and repair services market authorizations or licenses to perform repair and overhaul services on the equipment they manufacture. OEMs maintain tight controls in order to maintain high quality of service to their customers, and generally grant very few authorizations or licenses. Obtaining OEM authorizations requires sophisticated technological capabilities, experience-based industry knowledge and substantial capital investment. Limco believes that service providers that have received OEM authorizations and licenses gain a competitive advantage because they typically receive discounts on parts, technical information, OEM warranty support and use of the OEM name in marketing. Limco is an independent MRO service provider that is licensed by Hamilton Sundstrand, the largest heat transfer equipment manufacturer, for its air-to-air heat transfer equipment in North America and is also licensed by Honeywell, the largest manufacturer of APUs, for four of its APU models.

Each of the authorizations or licenses that Limco has with OEMs is in the form of a contractual arrangement. Some of these contracts require Limco to pay an authorization fee to the OEM and, in some cases, Limco is also required to pay annual authorization fees and royalties, or to fulfill other conditions set by the OEM. None of Limco's material authorizations or licenses expires prior to 2011 except that its OEM licenses from Honeywell will expire in June 2014.

#### *OEM Capabilities*

In addition to its MRO services, Limco also acts as an OEM manufacturer of precision parts for the aircraft, electronics, industrial, government and commercial markets. Limco manufactures heat transfer components used in commercial, regional, business and military aircraft, air conditioning systems, complete environmental control systems and cooling systems for electronics. Limco currently offers approximately 80 OEM parts to the aerospace industry. These parts are manufactured in compliance with the stringent quality assurance standards that apply to the manufacture of aircraft parts such as Bell, L3, Vought Aircraft and Raytheon. Limco's quality systems are ISO 9001 certified and Limco has both Boeing quality systems approval D6-82479 and FAR 21.303 (the FAA standard for Parts Manufacturer Approval).

Limco specializes in the design and manufacturing of highly efficient heat transfer components, which are designed to meet stringent constraints such as size, weight and applicable environmental conditions. These units include heat exchangers, oil coolers, pre-coolers, re-heaters, condensers, fuel heaters and evaporators.

## **Customers**

### ***General***

TAT targets both the commercial and military markets. Our customers include commercial manufacturers of military equipment, commercial airlines, aircraft manufacturers, military forces, defense industries, and other manufacturers of electronic systems, aviation units and machinery in the U.S., Europe and Israel.

### ***Major Customers***

#### ***OEM Customers -***

TAT provides, primarily through Gedera and Bental, OEM services worldwide to customers in the commercial, defense and industrial markets. TAT currently sells its OEM products and systems to approximately 200 commercial, military, aircraft manufacturers and defense contractors.

The development projects and purchasing processes of many of TAT's OEM customers are lengthy and complex and accordingly, involve long term supply contracts with several of its material customers. These agreements provide for delivery schedules that are customized for the relevant product or service. With some of its customers, TAT enters into master purchase orders in which the anticipated supply quantities as well as the prices for the supplied products are determined for a certain period, and the actual purchase orders are fulfilled based on customer demands from time to time. In addition, TAT also enters into master agreements that determine supply quantities and prices for a set period, but under which the customer is not obligated to purchase any quantity of products.

#### ***MRO Customers –***

TAT services approximately 600 MRO customers, primarily through Limco, including major US domestic and international airlines, air cargo carriers, maintenance service centers and the military. Limco's aerospace OEM customers include over 30 commercial and military aircraft manufacturers and defense contractors and the U.S. government. Limco's customers also include Boeing, Bell, Bombardier, L3, Vought Aircraft and Raytheon. Limco is not a party to any OEM manufacturing contracts, and acts solely upon orders received from Limco's customers.

TAT has a large and diverse customer base and therefore, TAT believes that the termination by any one or more of its material customers of their relationship with TAT will not materially affect TAT's results of operations. Due to the long term relationships of TAT with many of its customers, their relative financial stability and their high level of loyalty to TAT, TAT anticipates that the risk of customer terminations is low. TAT also makes significant efforts to penetrate new markets and to broaden their customer base in order, among other things, to reduce the risk of relying on a small number of customers.

#### *Military Contracts*

Sales to the U.S. and Israeli governments accounted for approximately 2.5% and 2.1% of TAT's revenues for the year ended December 31, 2009, 5.0% and 0.6% of its revenues for the year ended December 31, 2008 and 4.4% and 1.1% of its revenues for the year ended December 31, 2007, respectively.

Many of TAT's contracts are competitively bid and awarded on the basis of technical merit, personnel qualifications, experience and price. TAT also receives some contract awards involving special technical capabilities on a negotiated, noncompetitive basis due to TAT's technical capabilities.

TAT provides products under government contracts that usually require performance over a period of several months to several years. Long-term contracts for the U.S. military may be conditioned upon continued availability of congressional appropriations. Variances between anticipated budget and congressional appropriations may result in a delay, reduction or termination of these contracts.

The vast majority of the governmental contracts to which TAT is party to are fixed-price contracts. Under these contracts TAT agrees to perform specific work for a fixed price and, accordingly, realizes the benefit or detriment to the extent that the actual cost of performing the work differs from the contract price. The allowable government contract costs and fees of TAT are subject to audit and may result in non-reimbursement of some contract costs and fees. While governments reserve the right to conduct further audits, audits conducted for periods through fiscal year 2009 have resulted in no material cost recovery disallowances for TAT.

The eligibility of TAT to perform under their government contracts require TAT to maintain adequate security measures. TAT have implemented security procedures that they believe adequately satisfies the requirements of their current government contracts.

## Sales and Marketing

### Gedera

Gedera derives its revenues mainly from sales to customers in the United States, Israel and Europe. The below table details Gedera's geographic revenues for the years ended December 31, 2009 and 2008, before elimination of intercompany sales of \$5.2 million and \$5.9 million, respectively.

Geographic Region	Year Ended December 31,			
	2009		2008	
	Revenues In Thousands	Percentage	Revenues In Thousands	Percentage
	Unaudited		Unaudited	
North America	\$ 11,349	39.7%	\$ 13,836	49.7%
Europe	5,438	19.0	5,241	18.8
Israel	9,707	33.9	7,607	27.3
Asia	-	-	1,173	4.2
Other	2,123	7.4	-	-
Total	\$ 28,617	100%	\$ 27,857	100%

**Bental**

Bental derives its revenues mainly from sales to customers in Israel. The below table details Bental's geographic revenues for the years ended December 31, 2009 and 2008.

Sources of Revenues	Year Ended December 31,			
	2009		2008*	
	Revenues in Thousands	Percentage	Revenues In Thousands	Percentage
	Unaudited		Unaudited	
North America	\$ 969	8.6%	\$ 273	0.8%
Europe	350	3.1	807	2.5
Israel	9,907	87.5	30,908	96.2
Other	95	0.8	164	0.5
Total	\$ 11,321	100%	\$ 32,152	100%

- Bental's results of operations were consolidated commencing August 2008, following which only \$9,758 were included in TAT's consolidated financial statements for year 2008; A significant portion of Bental's 2008 revenues were generated from one customer. During 2009 revenues from this customer were significantly reduced.

**Limco**

Limco derives its revenues mainly from sales to customers in the US and Europe. The below table details Limco's geographic revenues for the years ended December 31, 2009 and 2008, respectively.

Sources of Revenues	Year Ended December 31,			
	2009		2008	
	Revenues in Thousands	Percentage	Revenues In Thousands	Percentage
	Unaudited		Unaudited	
North America	\$ 34,043	70.4%	\$ 49,448	69.1%
Europe	10,767	22.3	13,980	19.5
Israel	95	0.2	-	-
Asia	-	-	3,324	4.6
Other	3,435	7.1	4,813	6.8
Total	\$ 48,340	100%	\$ 71,565	100%

Gedera, Bental and Limco market their products and services through their respective marketing staffs and a worldwide network of independent representatives. Gedera's, Bental's and Limco's representatives are strategically located near key customer sites in offices throughout the United States, Europe, the Middle East, Asia and South America. Their staff is in regular contact with engineering and procurement personnel and program managers of existing and target customers to identify new programs and needs for their products, obtain requests for quotations and identify new product opportunities. Gedera's, Bental's and Limco's marketing activities also include advertising in technical publications which target heat transfer components and related markets, attending exhibitions, trade shows and professional conferences, organizing seminars and direct mailing of advertisements and technical brochures to current and potential customers and advertising in technical publications which target relevant products and related markets.

**Backlog**

On December 31, 2009, TAT had a backlog of approximately \$47 million for products. TAT anticipates that approximately \$35.5 million of such backlog will be delivered by December 31, 2010 and approximately \$11.5 million will be delivered by December 31, 2011 and thereafter.

**Product and Service Warranties**

TAT provides warranties for its products and services ranging from one to five years, which vary with respect to each contract and in accordance with the nature of each specific product. To date, TAT's warranty costs have not been substantial. As of December 31, 2009, the combined warranty reserve for TAT was \$401,000.

## Competitive Environment

### *OEM of Heat Transfer Products -*

The aerospace and defense OEM industries in general and specifically, the commercial and military markets, are characterized by intense competition and the need to constantly be in the forefront of technological innovations in order to be able to offer advanced and attractive products. Competition in these OEM markets is also based on price, quality and turn-around time. TAT estimates the size of Gedera's market to be significant based on the scope of development projects and purchasing processes of the potential customers. TAT estimates that due to the high barriers to entry to the aerospace and defense OEM industries, which include the need for highly qualified and trained personnel, technologically advanced facilities and the need to obtain appropriate governmental approvals, there are a small number of competing suppliers in the markets in which it operates. The nature of the projects in the OEM industry, which are often time consuming and complex also require long term supplier relationships and customer loyalty in order to succeed.

Gedera's competitors in the global OEM aerospace and defense industries can be divided into two main groups;

- Complete system manufacturers that either independently or through subcontractors, manufacture components (such as heat exchangers) for the complete system they manufacture. These companies will compete with Gedera on projects where the components Gedera develops are part of the complete system (such as an aircraft air conditioning system), but it is unlikely that such companies will compete with Gedera in projects where there is a specific requirement for a stand-alone component.
- Component manufacturers for which the manufacture of components (such as heat exchangers) is the main business (and which are normally placed in the "value chain" one level below the system manufacturers). These companies will usually not compete with Gedera on projects for complete products or systems in which their manufactured component constitutes a small part of the complete product or system, mainly due to their inability to move up the "value chain" from a component supplier to a whole system manufacturer. These companies are likely to compete in projects where there is a specific requirement for a stand alone aviation component (such as a heat exchanger) and in tenders by manufacturers of complete systems or products for sub-contractors.



The major competitors of Gedera in the area of OEM of Heat Transfer products include manufacturers in the U.S. such as Honeywell, Hughes-Treidler division of Ametek Inc., Lytron Inc., Kintex, Niagra Thermal, Hamilton Sundstrand, Stewart Werner South Wind Corp., United Aircraft Products and Triumph Thermal Systems, manufacturers based in Europe such as I.M.I. Marston Ltd., Dunlop Aerospace (including Serck Aviation) and manufacturers based in Asia such as Sumitomo Precision Products from Japan. Such competitors may enjoy competitive advantages over Gedera, such as:

- The ability to adapt more quickly to changes in customer requirements and industry conditions or trends;
- Greater access to capital;
- Stronger relationships with customers and suppliers;
- Better name recognition; and
- Access to superior technology and marketing resources.

#### ***OEM of Electrical Motion Systems -***

The market in which Bental operates is highly competitive and is characterized by large customers that are related to the defense and/or aerospace ministries in their countries. Bental's market is also subject to strict import and export regulations and to the budgetary constraints imposed by the governments of such countries. Bental is required to constantly be at the forefront of technological innovations in order to be able to offer advanced innovative products to its customers. Bental's operations require highly qualified and trained engineering, manufacturing, information and quality assurance personnel.

An analysis of the market participants in the global market of electric motion systems shows that it is comprised mainly of large companies that provide standard products and a small number of companies that provide special customized solutions. With respect to the markets outside Israel, the providers of the systems in which Bental's products are integrated tend to prefer local manufacturers for the purchase of the components and therefore, the penetration of these markets requires product innovation. In the Israeli market, the competition is mainly against imported components. Bental's major competitors in this segment are: for electric motors - Danaher Motion — Kollmorgen (USA), Artus Pacific Scientific (Europe), Moog Components Group (USA) Aveox (USA), Ametek (USA), ICPE (Europe); For actuators - Kearfott Corp. (USA), Moog Components Group (USA), Pegasus Actuators (Europe), M.T.C Ltd. (Israel); For Alternators - Sullivan Products (USA), Prestolite (USA), Sermat (Europe).

### ***MRO Services -***

The market for MRO services, in which Limco operates, is highly competitive. Competition in this market is based on quality, price, and the ability to provide a broad range of services and to perform repairs and overhauls rapidly. Limco's primary MRO services competitors are the service divisions of OEMs, the in-house maintenance services of a number of commercial airlines and other independent service providers. For heat transfer component MRO services Limco's major competitors are the LORI Heat Transfer Center of Honeywell and SECAN-Honeywell (France). For APU and Landing Gear MRO services Limco's major competitors are Standard Aero Group Inc., Aerotech International Inc., Honeywell, Alameda Aerospace, JetSet Aerospace LLC, Messier-Dowty Aerospace (MD), AAR Corp., Hawker Pacific and APRO. For Limco's OEM heat transfer equipment, its major competitors are other OEMs who manufacture heat transfer equipment, including the Hughes-Treitler division of Ametek Inc., Lytron Inc., Hamilton Sundstrand and Honeywell.

A number of Limco's competitors have inherent competitive advantages. For example, Limco competes with the service divisions of large OEMs who in some cases have design authority with respect to their OEM products and are able to derive significant brand recognition from their OEM manufacturing activities. Limco also competes with the in-house service divisions of large commercial airlines and there is a strong incentive for an airline to fully utilize the services of its maintenance employees and facilities. Further, Limco's competitors may have additional competitive advantages, such as:

- The ability to adapt more quickly to changes in customer requirements and industry conditions or trends;
- Greater access to capital;

- Stronger relationships with customers and suppliers;
- Better name recognition; and
- Access to superior technology and marketing resources.

#### **Competitive Strengths**

We believe that TAT's success can be attributed to several critical factors, including the following:

- Active efforts to preserve its customer base in existing projects, while actively making efforts to broaden and increase its engagements with such clients.
- Conducting marketing activities geared at penetrating new geographical markets and obtaining new customers, while taking advantage of the unique knowledge and expertise that Gedera, Bental and Limco gained in various areas.
- Entering into additional related operating segments that will enable Gedera, Bental and Limco to fulfill its growth potential.
- Providing its customers with the best value, including competitive prices, by tailoring service packages that combine the design and planning of an OEM component, the manufacture of such component, and the provision of maintenance services.
- Extending MRO capabilities in order to establish a 'one-stop-shop' center for comprehensive MRO services for the types of aircraft Limco targets.
- Enhancing its engineering capabilities in order to support customer needs related to new projects and in order to certify MRO services that differ from processes previously approved by the FAA or ESAA. This will allow to shorten the long and complex approval process, streamline the design and certification process and reduce costs.
- Constant search for new technologies and manufacturing techniques in the heat exchanger segment.

- Innovations and improvements geared at enhancing the quality and performance of Gedera's, Bental's and Limco's existing products.
- Cutting delivery times and reducing costs.
- Entrepreneurship and innovation in the development of new products in an effort to become a market leader and to enter into long term platforms.

In addition, Bental provides TAT with the following additional unique competitive advantages:

- Bental enhances TAT's ability to penetrate new markets such as the commercial aerospace market in addition to the military market, and the market for ground base systems in addition to the aerospace market.
- Bental's entrepreneurial nature brings significant growth potential by introducing innovative and unique products such as stabilized payload systems.

#### **Engineering and Manufacturing**

As of December 31, 2009 TAT, employed 466 employees engaged in manufacturing, repair, and testing of products and in engineering (out of a total of 530 employees). TAT believes that its engineering staff provides it with the ability to support its customers with innovative and efficient products while maintaining short product development cycles, high quality design and competitive pricing.

Gedera's engineering staff has extensive knowledge and experience related to its heat transfer components. Most of Gedera's product lines have a designated project manager who is an experienced engineer and is in charge of all the activities in his area. The product manager interfaces with the customer, engineering department, manufacturing department and vendors, and is responsible for all aspects of the program including scheduling, adherence to specifications, customer support and reporting.

In general, Gedera has manufacturing capabilities for most of the components of its heat transfer components. Gedera also manufactures the necessary tools, fixtures, test equipment and special jigs required to manufacture, assemble and test these products. Gedera developed proprietary design techniques which assist in the mechanical design and manufacturing of its products. All of Gedera's products are inspected and tested by trained inspectors using highly sophisticated test equipment in accordance with customer requirements.

Bental's engineering staff has extensive knowledge and experience related to its electric motion systems. Most of Bental's product lines have a designated project manager who is an experienced engineer and is in charge of all the activities in his area. The product manager interfaces with the customer, engineering department, manufacturing department and vendors, and is responsible for all aspects of the program including scheduling, adherence to specifications, customer support and reporting.

Limco's engineering department supports its OEM activity and also enhances its ability to provide its customers with high-end top quality MRO services. Limco's engineering department employs seven certified mechanical and aerospace engineers, including a Designated Engineering Representative, or DER, certified by the FAA. Limco's multi-disciplinary team of engineers specializes in heat transfer components and supports all processes of thermal and structural analysis, mechanical and metallurgical research and development for manufacturing design. All of Limco's engineers have direct experience with aerospace component repair and have experience with the process of obtaining supplemental type certificates from the FAA and in obtaining FAA product manufacturing authorizations. Limco's onsite DER is certified by the FAA to approve the repair of engines, APUs, and mechanical systems and equipment, which enables Limco to respond quickly to its customers' needs. Having a DER on staff allows Limco to enter the market for a particular type of service more quickly than those of its competitors who do not employ a DER. Limco works directly with the FAA Aircraft Certification Office in obtaining approvals on projects that are outside its DER's authority.

#### **Research and Development**

The technological developments in the markets in which Gedera, Bental and Limco operate increase the need to constantly examine the use of new materials and technology in an effort to improve both the physical characteristics of the products (size, weight), as well as their performance (optimal heat transfer, higher reliability and increased lifespan). TAT tries to attain such technological improvements in cooperation with its customers.

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

Gedera, Bental and Limco acquire most of the components for the manufacture of their products from a limited number of suppliers and subcontractors, most of whom are located in Israel and the United States. Certain of these suppliers are currently the sole source of one or more components upon which Gedera, Bental and Limco are dependent. Since many of Gedera's, Bental's and TAT's purchases require long lead-times, a delay in the supply of an item can significantly delay the delivery of a product. Generally, Gedera, Bental and Limco have not experienced difficulty in obtaining timely deliveries of necessary components. The raw materials used in Gedera's, Bental's and Limco's manufacturing programs are generally readily available metals and alloys. Gedera, Bental and Limco have not had any difficulty in obtaining such materials in the past and if they are unable to obtain these components when needed, Gedera, Bental and Limco would experience delays in manufacturing their products and their financial results could be adversely affected.

Gedera, Bental and Limco select their suppliers primarily based on their ability to ensure that their parts are serviceable and traceable to OEM-approved sources, their delivery performance and their ability to help reduce their total cost of procuring those parts. For quality control, cost and efficiency reasons, Gedera, Bental and Limco generally purchase supplies only from vendors with whom they have ongoing relationships or who their customers have previously approved.

Limco's authorizations from OEMs often require that Limco purchase component parts that are needed for its MRO services from the OEM or its designated distributors. Limco has an agreement with Honeywell under which Honeywell has agreed to sell Limco certain parts at a discount for a period of five years, ending May 31, 2014.

When deemed essential, Gedera, Bental and Limco have been and are investing efforts in order to qualify second sources or have identified alternate sources for many of its parts needs.

#### **Israeli Export Policy**

Exports of military related products are subject to the military export policy of the State of Israel. Current Israeli Government policy encourages exports to approved customers, provided that such exports do not run counter to Israeli policy or national security considerations. Gedera and Bental must obtain a permit to initiate a sales proposal and ultimately an export license for the transaction is required. Gedera and Bental may not be able to obtain export permits or licenses in the future. In addition, governmental policy with respect to military exports may be altered. However, to date Gedera and Bental have not encountered any significant difficulties in obtaining necessary permits or licenses for sale of their products.

## **Proprietary Rights**

At the present time Gedera, Bental and Limco do not own any patents. Gedera, Bental and Limco rely on laws protecting trade secrets, and consider such items proprietary, but TAT believes that Gedera, Bental and Limco's success depends less on the ownership of such proprietary rights than on their innovative skills, technical competence marketing and engineering abilities. Gedera, Bental and Limco have no existing material registered trademarks.

## **B. Government Regulations**

### ***Aerospace and Safety Regulations***

The commercial aerospace industry is highly regulated by the FAA in the United States, EASA in Europe, the Civil Aviation Authority in England and other governmental authorities elsewhere in the world, while the military aerospace industry is governed by military quality specifications established by the U.S. Department of Defense for the manufacturing and repair industries and ISO-9001. TAT is required to be certified by one or more of these entities and, in some cases, by individual OEMs. TAT must also satisfy the requirements of its customers, including OEMs and airlines that are subject to FAA regulations, and provide these customers with products that comply with the government regulations applicable to commercial flight operations. TAT believes it currently satisfies or exceeds these FAA maintenance standards in its repair and overhaul activities. Each of its repair stations is approved by the FAA.

TAT's operations are also subject to a variety of worker and community safety laws including the Occupational Safety and Health Act of 1970, known as OSHA, which mandates general requirements for safe workplaces for all US employees. In addition, OSHA provides special procedures and measures for the handling of certain hazardous and toxic substances. TAT believes that its operations are in material compliance with OSHA's health and safety requirements.

TAT believes that it is in material compliance with US governmental regulations affecting the aerospace and defense industry.

#### ***Israeli Regulations***

TAT's operations in Israel are subject to supervision by the Ministry of Defense and Civil Aviation Administration. Gedera and Bental are certified by the Israeli Air Force and the Ministry of Defense for both manufacturing and maintenance. Gedera is also licensed as a repair station for certain components by the Israeli Civil Aviation Administration. In addition, Gedera's and Bental's export of certain products and/or know-how is subject to approval by The Foreign Defense Assistance and Defense Export Organization of the Israeli Ministry of Defense, known as SIBAT. Permits from SIBAT must be obtained for the initiation of sales proposals with regard to such exports, as well as for the actual export of such products.

#### ***Environmental Matters***

TAT's operations are subject to a number of federal, state and local environmental laws in the United States, and to regulation by government agencies, including the U.S. Environmental Protection Agency. Among other matters, these regulatory authorities impose requirements that regulate the emission, discharge, generation, management, transportation and disposal of pollutants and hazardous substances. These authorities may require TAT to initiate actions to remediate the effects of hazardous substances which may be or have been released into the environment, and require TAT to obtain and maintain permits in connection with TAT's operations. This extensive regulatory framework imposes significant compliance burdens and risks.

Although TAT seeks to maintain its operations and facilities in compliance with applicable environmental laws, there can be no assurance that TAT has no violations, or that change in such laws, regulations or interpretations of such laws or in the nature of TAT's operations will not require TAT to make significant additional expenditures to ensure compliance in the future. Currently, TAT does not believe that it will have to make material capital expenditures for its operations to comply with environmental laws or regulations, or to incur material costs for environmental remediation during the 2010 fiscal year.



TAT has received no material third party environmental claims relating to its facilities, and TAT believes that it has all material licenses and certifications that are required in the jurisdictions in which it operates.

**C. Organizational Structure**

Isal Amlat is currently the beneficial owner of 53.7% of TAT's outstanding shares, 10.06% of such shares are held directly by it and 43.63% of such shares are held directly by TAT's parent company TAT Industries. Isal Amlat owns 79.3% of the outstanding shares of TAT Industries. Isal Amlat is 81.7% controlled by KMN Holdings Ltd., an Israeli company publicly traded on the Tel Aviv Stock Exchange.

On January 1, 2008, TAT established a wholly-owned subsidiary under the laws of the State of California, TAT-GAL Inc., which acts as purchasing agent for TAT's operations.

**D. Property, Plants and Equipment**

The Gadera facility is located in Park Re'em near Gadera. The Park Re'em's location houses TAT's executive offices, research and development and manufacturing operations and includes a 344,000 square foot facility. The land of this facility is leased from the Israeli Government pursuant to a lease that expires in 2016 with respect to one plot (237,000 square feet) and 2020 with respect to the other plot (107,000 square feet). 43,000 square feet of the facility was assigned, but not registered, to TAT by TAT Industries in connection with TAT's acquisition of TAT Industries' heat exchanger operations in December 1991. TAT leases the remaining 301,000 square feet of the facility from TAT Industries pursuant to an agreement TAT entered into in connection with the purchase of the operations relating to the manufacture of aviation accessories of TAT Industries in February 2000. The agreement is for a period of 24 years and 11 months. From 2000 to 2004, TAT paid TAT Industries annual rental fees of approximately \$300,000 per year, with an additional incremental payment of 2% per year. The rental fee is subject to revaluation every fifth year. In 2005 the rental fee was reviewed by a real estate appraiser, and as a result was increased to \$310,000 per year with an additional incremental payment of 2% per year. Total rental payment TAT paid to TAT Industries during 2009 was \$335,000. The rental fee will be subject to an increase in 2010. TAT is entitled to a one-time right of termination of the agreement after ten years.

The operations of Bental, are conducted in Kibbutz Marom-Golan. The Marom-Golan location includes a 54,000 square feet facility that houses Bental's offices, research and development and manufacturing operations. Total rental payment Bental paid in 2009 was \$55,000.

Limco owns and operates a 55,000 square feet manufacturing plant in Tulsa, Oklahoma which has historically supported both its OEM business and its aftermarket heat transfer component repair station. This facility also has housed Limco's administration, engineering, quality control and support services. Limco also leases an additional 9,000 square feet repair station adjacent to its Tulsa manufacturing plant which has supported its heat transfer component and pneumatic ducting MRO services.

Limco leases approximately 56,000 square feet space for its facility in Kernersville, North Carolina. In 2009, the annual rental expense for this property was \$69,000. The lease, which expires on November 1, 2011, provides for two renewal options, each for a five year term.

**Item 4A.                    Unresolved Staff Comments**

Not applicable.

**Item 5.                    Operating and Financial Review and Prospects**

**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

TAT provides a variety of services and products to the aerospace and defense industries under three operational segments: (i) OEM of Heat Transfer Products (ii) OEM of Electric Motion Systems; and (iii) MRO services.

TAT's activities in the field of OEM of Heat Transfer products primarily relate to its Gedera facility and includes the (i) design, development, manufacture and sale of a broad range of heat transfer components (such as heat exchangers, pre-coolers and oil/fuel hydraulic coolers) used in mechanical and electronic systems on-board commercial, military and business aircraft; and (ii) manufacture and sale of environmental control and cooling systems and (iii) a variety of other electronic and mechanical aircraft accessories and systems such as pumps, valves, power systems and turbines.

TAT's activities in the field of OEM of Electric Motion Systems primarily relate to its subsidiary, Bental, and includes the design, development, manufacture and sale of a broad range of electrical motor applications for airborne and ground systems. TAT activities in this segment commenced with the acquisition of Bental in August 2008.

TAT's MRO services primarily relate to its subsidiary, Limco, and include the maintenance, repair and overhaul of heat transfer equipment and other aircraft components, APUs, and landing gear. Limco operates FAA certified repair stations, which provide aircraft component MRO services for airlines, air cargo carriers, maintenance service centers and the military.

TAT's Parts services division, operated as an operational segment until December 4, 2009, focused on inventory management and sale of APU parts, propellers and landing gear. On December 4, 2009, TAT sold its propellers MRO business parts services segment to FAVS (See "Item 4 – Information of the Company; History and development of TAT").

TAT is reliant on the commercial and military aviation and defense industries. Any downturn in these industries could decrease demand for its services and products and negatively impact its financial condition. The commercial airline industry is cyclical and has historically been subject to fluctuations due to general economic and political conditions, such as fuel and labor costs, price competition, downturns in the global economy and national and international events.

TAT's revenues from OEM operations generally have higher gross margins than from MRO services which generally have higher gross margins than parts services, where the historical gross margins are generally lower. Respectively, the manufacture of OEM products require higher level of expertise, associated labor and initial investments than does the provision of MRO services and of parts services.

TAT's cost of revenues for OEM operations and MRO services consists of component and material costs, direct labor costs, shipping expenses, royalties, overhead related to manufacturing and depreciation of manufacturing equipment. TAT's cost of revenues for parts services consisted primarily of the cost of the parts and shipping expenses. TAT's gross margin is affected by the proportion of its revenues generated from each of its operational segments.

The principal factors that affect the operating income of TAT's three segments in addition to their gross profit, is the amount TAT expends for selling and marketing expenses and general and administrative expenses. TAT believes that these operating expenses may increase in the future in accordance with its plans to grow the business of these segments.

TATs' research and development expenses are related to new products and technologies, primarily within the OEM operations in Israel, and became relatively material during year 2009 and thereafter.

TAT's selling and marketing expenses for all its operational segments decreased during past year, following a continuance growth during prior years due to TAT's efforts to grow these business segments. TAT believes that its selling and marketing expenses may increase in the future in accordance with its plans to grow the business of these segments.

TAT's general and administrative expenses have decreased during past year, following a continuance growth during prior years, primarily as a result of costs associated with recent M&A transactions (see further below) and the retirement of old management team. TAT believes that its general and administration expenses may increase in the future in accordance with its plans to grow the business of these segments.

In July 2005, Limco acquired Piedmont for approximately \$20.2 million, which included \$5.3 million in cash and the assumption of approximately \$8.7 million of bank indebtedness and \$5.6 million of other liabilities of Piedmont. The acquisition was accounted for using the purchase method of accounting as determined in the relevant accounting standards and accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed based on the estimated fair value at the date of acquisition.

In July 2007, Limco completed an initial public offering of its shares of common stock. In connection with the initial public offering, Limco sold an aggregate amount of 4,205,000 shares of its common stock (including over allotment option shares) and TAT sold an aggregate amount of 855,000 shares of Limco's common stock held by TAT (including over allotment option shares), at a price to the public of \$11.00 per share. Net proceeds to Limco from the offering were approximately \$41.5 million and net proceeds to TAT from the offering were approximately \$8.7 million. As a result, TAT recognized a net capital gain of approximately \$26.4 million net of taxes of \$1.5 for the year ended December 31, 2007.

In July 2009, TAT acquired all of the publicly held shares of Limco (approximately 32% of Limco's total shares). Under the terms of the merger agreement, Limco's stockholders received one half of an ordinary share of TAT for each share of Limco common stock they own. Following the merger, Limco became our wholly owned subsidiary. As a result of such merger, Limco again became a wholly-owned subsidiary of TAT.

On December 4, 2009, TAT's indirect subsidiary, Piedmont, acquired 5,766,667 Class B Common shares of FAvS representing 37% of FAvS' share capital on a diluted basis and \$750,000 of FAvS' Preferred Shares (entitling Piedmont to cash dividends at an annual rate of 12% payable quarterly or at the discretion of FAvS to PIK dividends payable in additional Preferred Shares at an annual rate of 15%). In consideration for such shares, Piedmont transferred to FAvS its propeller and parts businesses and guaranteed for a period of up to two years up to \$7 million of the bank debt incurred by FAvS to fund the transaction described in the next paragraph. FAvS is a provider of products and services for the global aviation industry and provides supply chain management services and maintenance and repair services for various wheels, brakes and starter/generators.

On December 4, 2009 and as part of the above mentioned transaction, FAvS also acquired all the assets and liabilities of Kelly Aerospace Turbine Rotables ("KATR"). KATR specializes in renovation and repair of landing gear, safety equipment and hydraulic and electrical components for corporate, regional and military aircraft.

FAvS' shares are quoted over the counter (OTC) at the NASDAQ stock market. FAvS' share value as of the closing date (December 4, 2009) and as of December 31, 2009, was \$0.89 and \$0.75, respectively. TAT believes that the share value does not reflect the fair value of FAvS share, because the extremely low trading volume in FAvS' shares does not reflect an active market. . Therefore the fair value of FAvS was based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers. According to the appraisal, FAvS' fair value amounted to \$22.549 million as of November 30, 2009. As a result of the sale of Piedmont's propeller and spare parts businesses, TAT recorded a capital gain in the amount of \$4.4 million in its statement of income.

#### **Sources of Revenues**

TAT, directly and through its subsidiaries, provides a variety of services and products to the commercial and military aerospace and defense industries, such as the manufacture, maintenance and repair of a broad range of heat transfer components (such as heat exchangers, pre-coolers and oil/fuel hydraulic coolers) used in mechanical and electronic systems on-board commercial, military and business aircraft; other environmental control and cooling systems a variety of other electronic and mechanical aircraft accessories and a wide range of electric motion systems.

TAT specializes in the repair and overhaul of heat transfer components, APUs, landing gear and pneumatic ducting. TAT is licensed by Hamilton Sundstrand, a leading provider of aerospace products, to provide MRO services for all of its air-to-air heat transfer products, and by Honeywell, a leading manufacturer of aerospace products and aerospace services provider, to provide MRO services for three of their APU models. TAT's repair stations are certified by the FAA and the EASA.

TAT's Parts services division, operated until December 4, 2009, focused on inventory management and sale of APU parts, propellers and landing gear. On December 4, 2009, TAT sold its parts segment and its MRO propellers business to FAvS (See "Item 4 – Information of the Company; History and development of TAT").

The following table reflects the geographic breakdown of TAT's revenues for each of the three years ended December 31, 2009:

	Years Ended December 31,					
	2009		2008		2007	
	Revenues in Thousands	% of Total Revenues	Revenues in Thousands	% of Total Revenues	Revenues in Thousands	% of Total Revenues
Sale of products						
North America	\$ 7,554	21.7%	\$ 8,233	26.0%	\$ 7,793	41.2%
Europe	5,788	16.7%	5,241	16.5%	3,593	19.0%
Israel	19,613	56.4	17,077	53.8%	7,369	38.9%
Asia	-	-	1,173	3.7	111	0.6
Other	1,796	5.2	-	-%	62	0.3%
Total	<u>\$ 34,751</u>	<u>100.00%</u>	<u>\$ 31,724</u>	<u>100.00%</u>	<u>\$ 18,928</u>	<u>100.00%</u>

	Years Ended December 31,					
	2009		2008		2007	
	Revenues in Thousands	% of Total Revenues	Revenues in Thousands	% of Total Revenues	Revenues in Thousands	% of Total Revenues
Services						
North America	\$ 34,043	70.4%	\$ 49,239	68.8%	\$ 48,761	69.9%
Europe	10,767	22.3	14,269	19.9%	14,891	21.3%
Israel	95	0.2	-	-%	14	-%
Asia	-	-	3,324	4.7	2,444	3.5%
Other	3,435	7.1	4,733	6.6%	3,666	5.3%
Total	\$ 48,340	100.00%	\$ 71,565	100.00%	\$ 69,776	100.00%

TAT's revenues from its four operational segments for the three years ended December 31, 2009 were as follows:

	Year Ended December 31,					
	2009		2008		2007	
	Revenues in Thousands	% of Total Revenues	Revenues in Thousands	% of Total Revenues	Revenues in Thousands	% of Total Revenues
Revenues						
MRO services	\$ 42,283	50.9%	\$ 54,276	52.5%	\$ 49,392	55.7%
OEM of Heat Transfer products	28,617	34.4	27,857	27.1%	23,489	26%
Parts services *	6,057	7.3	17,289	16.7%	20,384	23%
OEM of Electric Motion Systems	11,321	13.6	9,758	9.4%	--	--
Eliminations	(5,187)	(6.2)	(5,891)	(5.7)%	(4,561)	(5.2)%
Total revenues	\$ 83,091	100.00%	\$ 103,289	100.00%	\$ 88,704	100.00%

\* Operated until December 4, 2009



## Costs and Expenses

**Cost of revenues** TAT's cost of revenues for OEM operations and MRO services consist of component and material costs, direct labor costs, royalties, shipping expenses, overhead related to manufacturing and depreciation of manufacturing equipment. TAT's cost of revenues for parts services consisted primarily of the cost of the parts and shipping expenses.

TAT's gross margin was affected by the proportion of TAT's revenues generated from MRO services, OEM operations and parts services. TAT's revenues from MRO services and OEM operations generally had higher gross margins than TAT's parts services.

**Selling and marketing expenses.** Selling and marketing expenses consist primarily of commission payments, compensation and related expenses of TAT's sales teams, attendance at trade shows, advertising expenses and related costs for facilities and equipment.

**General and administrative expenses.** General and administrative expenses consist of compensation and related expenses for executive, finance and administrative personnel, professional fees, other general corporate expenses and related costs for facilities and equipment.

**Financial income (expense), net.** Financial income (expense), net consists of income and interest expense. Interest expense relates to the interest paid to banks and changes in the rate of the NIS against the U.S. dollar.

**Other income (expense).** Other income / expense results from the hedging activities.

**Tax expense.** Tax expense consists of Israeli, U.S. federal, state and local taxes on the income of TAT's business.

## Impact of Critical Accounting Policies

TAT's consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require management to make certain estimates, judgments and assumptions based upon information available at the time that they are made, historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. While all the accounting policies impact the financial statements, certain policies may be viewed to be critical. These policies are those that are both most important to the portrayal of TAT's financial condition and results of operations and require management's most difficult, subjective and complex judgments and estimates. Actual results could differ from those estimates.

In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles in the United States and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result. Management has reviewed these critical accounting policies and related disclosures with TAT's Audit Committee.

TAT's management believes the significant accounting policies which affect management's more significant judgments and estimates used in the preparation of TAT's consolidated financial statements and which are the most critical to aid in fully understanding and evaluating the reported financial results include revenue recognition, inventory valuation, goodwill and intangible assets, income taxes, doubtful debts and fair value estimates as part of FAvS acquisition that was based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers.

#### **Segments**

As of December 4, 2009, following the sale of TAT's parts segment and its MRO propellers business to FAvS as part of the transaction described under "Item 4 – Information of the Company; History and Development of TAT", TAT began reporting its operations based on three operating segments.

TAT evaluates segment performance based on revenue and operating income. The operating income reported in TAT's segments excludes corporate and other unallocated amounts. Although such amounts are excluded from the business segment results, they are included in reported consolidated earnings. Corporate and unallocated amounts include executive level expenses and certain expenses related to accounting and finance, human resources and information technology departments.

During year 2008 through December 4, 2009, TAT also operated a fourth segment – the Parts segment, that focused on sales of parts for APU's, propellers, landing gear and other aviation components.

The OEM of electrical motion systems segment was added with the consolidation of Bental, following its acquisition on August 18, 2008.

TAT's activities in the area of OEM of Heat Transfer products primarily relate to its Gedera facility and include (i) the design, development, manufacture and sale of a broad range of heat transfer components (such as heat exchangers, pre-coolers and oil/fuel hydraulic coolers) used in mechanical and electronic systems on-board commercial, military and business aircraft; (ii) the manufacture and sale of environmental control and cooling systems and (iii) a variety of other electronic and mechanical aircraft accessories and systems such as pumps, valves, power systems and turbines.

TAT's activities in the area of OEM of Electric Motion Systems primarily relate to its subsidiary, Bental, and include the design, development, manufacture and sale of a broad range of electrical motor applications for airborne and ground systems. TAT activities in this segment commenced with the acquisition of Bental in August 2008.

TAT's MRO services primarily relate to its subsidiary, Limco, and include the maintenance, repair and overhaul of heat transfer equipment and other aircraft components, APUs, and landing gear. Limco operates FAA certified repair stations, which provide aircraft component MRO services for airlines, air cargo carriers, maintenance service centers and the military.

#### **Revenue Recognition**

TAT generates its revenues from the sale of products and systems (the OEM segments) and from providing MRO Services (remanufacture, repair and overhaul services and long-term service contracts) and, until December 4, 2009, parts services.

Revenues from the sale of products and services are recognized in accordance with ASC 605-10-S99 (formerly referred to as Staff Accounting Bulletin No. 104. "Revenue Recognition in Financial Statements" or "SAB No. 104") when persuasive evidence of an arrangement exists, delivery of the product has occurred, provided the collection of the resulting receivable is probable, the price is fixed or determinable and no significant obligation exists. TAT does not grant a right of return.

Revenues from product sales are recognized when product is shipped to the customer and title passes to the customer.

Revenues from multi-year, fixed price contracts for OEM customers are recognized when a product is shipped (and title passes) to the customer. Management provides for losses, if expected for the remaining portion of such contracts. For the years ended December 31, 2009, 2008 and 2007, no losses have been recognized for such fixed price contracts.

Revenues from MRO services are recognized as services are performed, at the time when the customer-owned material is shipped back to the customer.

Revenue from maintenance contracts are accounted according to ASC 605-10-S99 (formerly referred to as FASB Technical Bulletin No. 90-1 (Amended), "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts"). Accordingly, revenues from maintenance contracts are recognized over the contract period in proportion to the costs expected to be incurred in performing services under the contract. TAT estimates the costs that are expected to be incurred based on its experience with the aggregate costs incurred and to be incurred on contracts of this nature. The cost incurred related to the maintenance contracts are not incurred on a straight-line basis, as the timing to provide the maintenance services is dependent on when parts under these contracts require maintenance, therefore TAT accrues revenue based on anticipated margins per contract as costs are incurred. These revenues are then compared to actual results and adjusted to either deferred revenue for results greater than historical estimates or expensed in those cases of performances less than historical estimates. These accounts are reviewed monthly and adjusted as needed based on cost structures.

Revenues from royalties from sales of products developed with TAT's intellectual property, technology and technical assistance are recognized when the related sales are made.

#### **Goodwill, Other Intangible Assets and Long-Lived Assets**

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. The \$5.3 million of goodwill in the balance sheet as of December 31, 2009, is a result of the following: \$3.8 million is a result of the acquisition of Piedmont from July 2005, less the goodwill transferred to FAvS in December 2009, \$0.4 million is a result of the acquisition of Limco during the 90's and \$1.1 million is a result of the acquisition of Bental in August 2008.

The identifiable intangible assets relating to the Piedmont acquisition, other than goodwill, included in the balance sheet are License for service center, Customer relationships and other intangible assets. The value TAT assigned to these intangible assets, using the income approach based on the present value of the cash flows attributable to each asset, was approximately \$2.3 million. The amounts allocated to these intangible assets are being amortized on a straight-line basis over periods ranging from 3 to 10 years. The identifiable intangible assets relating to Bental, other than goodwill, included in the balance sheet are customer relationships and backlog. The value assigned to these intangible assets, using the income approach based on the present value of the cash flows attributable to each asset, was approximately \$0.6 million. The amounts allocated to these intangible assets are being amortized on a straight-line basis over periods ranging from 0.4 to 5 years.

#### **Valuation of Intangible Assets, Marketable Securities and Long-Lived Assets**

In conjunction with acquisitions of assets, we allocate the purchase price based upon the relative fair values of the assets acquired and liabilities assumed. In connection with a business combination, amounts assigned to intangible assets are based upon fair value. We regularly assess whether indefinite life intangibles and goodwill have been impaired and will adjust the carrying values of these assets whenever events or changes in circumstances indicate that some or all of the carrying value of the assets may not be recoverable. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operating performances of our businesses and products. Future events could cause us to conclude that impairment indicators exist and that the carrying values of our intangible assets or goodwill are impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations. No impairment losses relating to goodwill and indefinite life intangible assets have been recorded to date.

We evaluate the recoverability and measure the possible impairment of goodwill. The impairment test is a two-step process that begins with the estimation of the fair value of the reporting unit. The first step screens for potential impairment, and the second step measures the amount of the impairment, if any. Our estimate of fair value considers publicly available information regarding the market capitalization of the company, as well as (1) publicly available information regarding comparable publicly traded companies in the pharmaceutical industry, (2) the financial projections and future prospects of our business, including its growth opportunities and likely operational improvements, and (3) comparable sales prices, if available. As part of the first step to assess potential impairment, we compare, on an operating unit level, our estimate of fair value for such operating unit to the book value of the operating unit. If the book value of any of the operating units is greater than the estimate of its fair value, we would then proceed to the second step to measure the impairment, if any. The second step measures the amount of impairment by comparing the implied fair value of goodwill with its carrying value. Such implied fair value is determined by allocating the fair value of the operating unit to all of the assets and liabilities of that unit as if the operating unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the operating unit. The excess of the fair value of the operating unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the carrying amount of the operating unit's goodwill is greater than its implied fair value, an impairment loss will be recognized in the amount of the excess.

We have determined September 30, 2009 as the date of the annual impairment test for goodwill and other indefinite life intangible assets. Goodwill and intangibles impairment were also tested as of December 31, 2008 and 2007.

#### **Income Taxes**

TAT operates within multiple taxing jurisdictions and is subject to audits in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. In management's opinion, adequate provisions for income taxes have been made for all years. Although management believes that its estimates are reasonable, no assurance can be given that the final tax outcome of these issues will not be different than those that are reflected in its historical income tax provisions.

TAT accounts for income taxes in accordance with ASC 740-10 (formerly referred to as FASB SFAS No. 109 “*Accounting for Income Taxes*”). TAT uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial statement and tax bases of assets and liabilities and net operating loss and credit carry forwards using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when it is more likely than not that some portion of the deferred tax assets will not be realized. To the extent that TAT’s decisions and assumptions and historical reporting are determined not to be compliant with applicable tax laws TAT may be subject to adjustments in its reported income for tax purposes as well as interest and penalties.

In June 2006, FASB issued Interpretation ASC 740-10 (formerly referred to as FIN No. 48, “Accounting for Uncertainty in Income Taxes – an Interpretation of SFAS No. 109” and its related FASB staff positions”). This interpretation prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740-10 also provides guidance on derecognition of tax positions, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure and transition. We adopted ASC 740-10 effective January 1, 2007. ASC 740-10 requires significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position. Changes in judgment as to recognition or measurement of tax positions can materially affect the estimate of the effective tax rate and consequently, affect our operating results.

#### **Allowances for Doubtful Accounts**

TAT performs ongoing credit evaluations of its customers’ financial condition and requires collateral as deemed necessary. Allowances for doubtful accounts for estimated losses resulting from the inability of TAT’s customers to make payments. In judging the adequacy of the allowance for doubtful accounts, TAT considers multiple factors including the aging of receivables, historical bad debt experience and the general economic environment. Management applies considerable judgment in assessing the realization of receivables, including assessing the probability of collection and the current credit worthiness of each customer. If the financial condition of TAT’s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**Inventories**

Inventories are stated at the lower of cost or market. Cost is determined by the average cost method. TAT's policy for valuation of inventory and commitments to purchase inventory, including the determination of obsolete or excess inventory, requires it to perform a detailed assessment of inventory at each balance sheet date which includes a review of, among other factors, an estimate of future demand for products within specific time frames, valuation of existing inventory, as well as product lifecycle and product development plans. The business environment in which TAT operates, the wide range of products that TAT offers and the relatively short sales-cycles TAT experiences all contribute to the exercise of judgment relating to maintaining and writing-off of inventory levels. The estimates of future demand that TAT uses in the valuation of inventory are the basis for its revenue forecast, which is also consistent with its short-term manufacturing plan. Inventory reserves are also provided to cover risks arising from non-moving items. Inventory management remains an area of management focus as TAT balances the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory obsolescence because of rapidly changing technology and customer requirements. TAT writes down obsolete or slow moving inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand, market conditions and sale forecasts. If actual market conditions are less favorable than TAT anticipates, additional inventory write-downs may be required.

**Warranty Costs**

TAT provides warranties for its products and services ranging from one to five years, which vary with respect to each contract and in accordance with the nature of each specific product. TAT estimates the costs that may be incurred under its warranty and record a liability in the amount of such costs at the time the product is shipped. TAT periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.



## Marketable Securities

Marketable securities consist of available for sale securities, which are primarily debt securities in which TAT invested with the intention of holding until the maturity dates of such securities. If it is determined, based on valuations, that a decline in the fair value of any of the investments is not temporary, an impairment loss is recorded and included in the consolidated statements of income as financial expenses.

## Key Indicators

TAT's management evaluates its performance by focusing on its key performance indicators, which are revenues, sources of revenues, gross profit and operating income. These key performance indicators are primarily affected by the competitive landscape in which TAT operates and its ability to meet the challenges posed.

The following table presents, for the periods indicated, information concerning TAT's results of operations:

	Year Ended December 31		
	2009	2008	2007
	(Audited, in thousands)		
Revenues			
MRO services	\$ 42,283	\$ 54,276	\$ 49,392
OEM Heat Transfer products	28,617	27,857	23,489
Parts services	6,057	17,289	20,384
OEM Electric Motion Systems	11,321	9,758	—
Eliminations	(5,187)	(5,891)	(4,561)
Total revenues	83,091	103,289	88,704
Cost of revenues			
MRO services	37,900	43,664	35,205
OEM Heat Transfer products	19,809	21,058	17,891
Parts services	5,879	13,922	16,603
OEM Electric Motion System	8,021	7,845	—
Eliminations	(4,714)	(5,926)	(4,492)
Total cost of revenues	66,895	80,563	65,207
Research and development	680		
Selling and marketing expenses	3,719	4,369	3,719
General and administrative expenses	14,979	12,407	10,995
Capital gain from sale of the propellers & parts businesses	(4,400)		
Operating income	1,218	5,950	8,783
Financial income	149	1,174	701
Other income (expenses), net	-	(236)	26,478
Income before income taxes	1,367	6,888	35,962
Income taxes	(765)	1,795	3,212
Net income	2,100	*5,767	*32,750
Share in income (loss) of an associated companies	(32)	674	—
Net income attributable to non controlling interest	(347)	(1,499)	(771)
Net income attributable to TAT Technologies shareholders	\$ 1,753	\$ 4,268	\$ 31,979

\* Non-controlling interest reclassification

The following table presents, for the periods indicated, information concerning TAT's results of operations as a percentage of revenues:

	Year Ended December 31,		
	2009	2008	2007
<b>Revenues</b>			
MRO services	51%	53%	56%
OEM Heat Transfer products	34	27	26
Parts services	7	17	23
OEM Electric Motion Systems	14	9	—
Eliminations	(6)	(6)	(5)
<b>Total revenues</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Cost of revenues</b>			
MRO services	46	42	40
OEM Heat Transfer products	23	20	20
Parts services	7	13	18
OEM Electric Motion Systems	10	9	—
Eliminations	(5)	(6)	(5)
<b>Cost of revenues</b>	<b>81</b>	<b>78</b>	<b>73</b>
Research and development	1		
Selling and marketing expenses	4	4	4
General and administrative expenses	18	12	12
Capital gain from sale of the propellers & parts businesses	(5)		
<b>Operating income</b>	<b>1</b>	<b>6</b>	<b>10</b>
Financial income	-	1	1
Other income (expenses), net	*	*	30
<b>Income before income taxes</b>	<b>1</b>	<b>7</b>	<b>41</b>
Income taxes	(1)	2	4
Share in income (loss) of an associated companies	*	1	—
<b>Net income</b>	<b>2</b>	<b>6</b>	<b>37</b>
Net income attributable to non controlling interest	(*)	(2)	(1)
<b>Net income attributable to TAT Technologies shareholders</b>	<b>2%</b>	<b>4%</b>	<b>36%</b>

\* Less than one percent.

**Year ended December 31, 2009 compared with the Year ended December 31, 2008**

**Revenues.** Total revenues were \$83.1 million for the year ended December 31, 2009 compared to \$103.3 million for the year ended December 31, 2008, a decrease of 20%. This reflects (i) lower revenues in the MRO and Parts operations due to the weakness in the U.S aviation industry; and (ii) increased revenues in the OEM operations in Israel due to organic growth in the OEM of Heat Transfer products segment, as well as increased revenues in the OEM of Electric Motion Systems segment derived from the Company's 70% controlled subsidiary, Bental, commencing August 18, 2008. The following revenue data for the operational segments does not reflect the elimination of inter-company transactions.

*Revenues from MRO services.* Revenues from MRO services decreased to \$42.3 million for the year ended December 31, 2009, from \$54.3 million for the year ended December 31, 2008, a decrease of 22.1%. The decrease in MRO services revenues in the year ended December 31, 2009, was primarily attributable to decreased sales to existing customers and, to a lesser degree, decreased sales to new customers.

*Revenues from OEM of Heat Transfer products.* Revenues from OEM of Heat Transfer products segment increased to \$28.6 million for the year ended December 31, 2009 from \$27.9 million for the year ended December 31, 2008, an increase of 2.5%. The increase in that segment's revenues was attributable to increased sales both to existing and new customers.

*Revenues from OEM of Electric Motion Systems.* Revenues from OEM of Electric Motion Systems segment increased to \$11.3 million for the year ended December 31, 2009, from \$9.8 million for the year ended December 31, 2008, an increase of 15.3%. The increase was attributable to the consolidation of Bental operations commencing from August 18, 2008.

*Revenues from parts services.* On December 4, 2009, TAT sold its parts segment to FAvS (See "Item 4 – Information of the Company; History and development of TAT" and further below under *General and Administrative Expenses*). Revenues from parts services decreased to \$6.1 million for the period ended December 4, 2009, from \$17.3 million for the year ended December 31, 2008, a decrease of 64.7%. The decrease in parts services revenues was primarily attributable to weakness in the aviation industry which impacted directly the demand for parts services.

*Cost of revenues.* Cost of revenues were \$66.9 million for the year ended December 31, 2009, compared to \$80.6 million for the year ended December 31, 2008, a decrease of 17%. The decrease in cost of revenues was primarily attributable to the decreased revenues in the MRO, Parts services OEM of Heat Transfer products segments. Cost of revenues as a percentage of revenues was 80.5% in the year ended December 31, 2009, a slight increase compared to 78.0% in the year ended December 31, 2008, primarily as a result of product mix with lower margin products sold during the year ended December 31, 2009 in the MRO and Parts segments, as well as to additional costs in the MRO segment related to settlement of our Repair Center and Storefront agreements, off-set by product mix with higher margin products sold during the year ended December 31, 2009, in the OEM of Heat Transfer Products segment. All of the following cost of revenues' data for the operational segments does not reflect the elimination of inter-company transactions.

*Cost of revenues for MRO services.* Cost of revenues for MRO services decreased to \$37.9 million for the year ended December 31, 2009 from \$43.7 million for the year ended December 31, 2008, a decrease of 13.3%, primarily as a result of decreased revenues. Cost of revenues as a percentage of revenues in this segment increased to 89.6% in the year ended December 31, 2009 from 80.5% for the year ended December 31, 2008, primarily as a result of (i) product mix with lower margins sold during year 2009; (ii) increased production costs in 2009; as well as to (iii) additional costs in this segment related to settlement of our Repair Center and Storefront agreements.

*Cost of revenues for OEM of Heat Transfer products.* Cost of revenues for OEM of Heat Transfer products decreased to \$19.8 million for the year ended December 31, 2009, from \$21.1 million for the year ended December 31, 2008, a decrease of 6.2%. While revenues increased compared to year 2008, this decrease in cost of revenues is primarily attributable to improved production processes. Cost of revenues as a percentage of revenues in this segment decreased to 69.2% in the year ended December 31, 2009, from 75.6% for the year ended December 31, 2008, primarily attributable to improved production processes resulting in higher margins.

*Cost of revenues for OEM of Electric Motion Systems.* Cost of revenues for OEM of Electric Motion Systems segment was \$8 million for the year ended December 31, 2009, similar to \$7.8 million for year 2008, and is attributable to the consolidation of Bental operations commencing from August 18, 2008. Cost of revenues as a percentage of revenues in this segment decreased to 71% in the year ended December 31, 2009, from 80.4% in the year ended December 31, 2008, primarily as a result of (i) product mix with higher margins sold during year 2009; and (ii) amortization of intangibles associated with Bental's purchase price allocation during year 2008.

*Cost of revenues for parts services.* On December 4, 2009 TAT sold its parts segment to FAVS (See "Item 4 – Information of the Company; History and development of TAT" and further below under *General and Administration Expenses*). Cost of revenues for parts services decreased to \$5.9 million for the period ended December 4, 2009, from \$13.9 million for the year ended December 31, 2008, a decrease of 57.6%, primarily as a result of decreased parts services revenues. Cost of revenues as a percentage of revenues increased to 97.1% in the period ended December 4, 2009 from 80.8% for the year ended December 31, 2008, primarily as a result of the increased rate of fixed costs out of total production costs during 2009.

*Research and development.* Research and Development expenses were \$0.7 million for the year ended December 31, 2009, and are related to new products and technologies within the OEM operations in Israel. Research and Development expenses as a percentage of revenues were 1% in the year ended December 31, 2009. TAT did not incur any material research and development expenses in the year ended December 31, 2008. TAT expects to continue to incur and record research and development expenses in coming years.

*Selling and marketing expenses.* Selling and marketing expenses decreased to \$3.7 million for the year ended December 31, 2009, from \$4.4 million for the year ended December 31, 2008. The 15% decrease in selling and marketing expenses was primarily attributable to more efficient operation whereby payroll expenses in Israel and the U.S. decreased. Selling and marketing expenses as a percentage of revenues were 4.5% for the year ended December 31, 2009, compared to 4.2% for the year ended December 31, 2008.

*General and administrative expenses.* General and administrative expenses increased to \$14.9 million for the year ended December 31, 2009, from \$12.4 million for the year ended December 31, 2008. The 21% increase in general and administrative expenses was primarily attributable to a \$1.7 million one time expenses associated with the write off of a customer debt, a \$0.8 million one time expense associated with the merger of a wholly-owned subsidiary of TAT and Limco mentioned above, a \$0.6 million relocation expenses (see below) and to increased expenses in the OEM operations as a result of the consolidation of Bental operations commencing August 18, 2008, off-set by one-time expense in 2008 associated with the retirement of certain management members which was not incurred during year 2009. General and administrative expenses as a percentage of revenues were 18% for the year ended December 31, 2009, compared to 12% for the year ended December 31, 2008.

On July 28, 2009 the Company determined not to go forward with the planned relocation of the operations of Limco's Tulsa, Oklahoma based subsidiary to the location of Limco's Piedmont, subsidiary in Kernersville, North Carolina. As a result, the Company incurred relocation expense of \$0.6 million for the year ended December 31, 2009, compared to none during the year ended December 31, 2008. TAT does not expect to incur additional material costs related to this item.

*Capital gain from sale of the propellers & parts businesses.* TAT recorded a \$4.4 million capital gain derived from FAvS transaction.

*Operating income.* Operating income decreased to \$1.2 million for the year ended December 31, 2009, from \$5.95 million for the year ended December 31, 2008, a decrease of 79.8%. The decrease in operating income reflects decreased gross and operational margins in the MRO and in the Parts services segments in 2009 compared to 2008; offset by increased gross and operational margins in the OEM operations due to improved margins in the OEM of Heat Transfer products segment, as well as operational income in the OEM of Electric Motion Systems segment derived from the company's 70% controlled subsidiary, Bental commencing August 18, 2008.

*Financial expenses.* Financial expense for the year ended December 31, 2009, was \$2.0 million, compared to \$1.5 million for the year ended December 31, 2008. During 2009 financial expense primarily resulted from changes in the exchange rate between the U.S. dollar and the Israeli Shekel, as well as interest payments on long-term loans. During 2008 financial expense primarily resulted from changes in the exchange rate between the U.S. dollar and the Israeli Shekel.

*Financial income.* Financial income for the year ended December 31, 2009, was \$2.1 million, compared to \$2.7 million for the year ended December 31, 2008 and was primarily attributable to hedging activities related to exchange rates between the U.S. dollar and the Israeli Shekel and to interest received for short-term investments.

*Other Income (expenses).* TAT had no other income for the year ended December 31, 2009 compared to other expenses of \$0.2 million for the year ended December 31, 2008. Other income for the year ended December 31, 2009 primarily resulted from a change in the fair value of unrealized forward transactions gains as of December 31, 2009.

*Net income attributable to noncontrolling interest.* TAT recognized net income attributable to noncontrolling interest of \$0.3 million for the year ended December 31, 2009, compared with net income attributable to noncontrolling interest of \$1.5 million for the year ended December 31, 2008.

*Taxes.* Total tax income for the year ended December 31, 2009, amounted to \$0.8 million, compared to tax expense of \$1.8 million for the year ended December 31, 2008. Tax income for the year ended December 31, 2009 is primarily attributable to reduction of income before tax in the U.S operations, and to an income tax benefit relating to prior years as a result of an approved enterprise certificate granted to Bental by the Israeli tax authorities in 2009 which resulted in the reduction of a previously recorded tax provision of approximately \$1.6 million; off-set by statutory taxes for the OEM operations in Israel as well as deferred taxes related to capital gain in the U.S

*Net income to controlling interest.* For the year ended December 31, 2009, net income was \$1.8 million, compared with net income of \$4.3 million for the year ended December 31, 2008.

***Year ended December 31, 2008 compared with year ended December 31, 2007***

*Revenues.* Total revenues increased to \$103.3 million for the year ended December 31, 2008 from \$88.7 million for the year ended December 31, 2007, an increase of 16.4%. This increase was primarily due to significantly increased sales in the OEM operations and moderately increased MRO sales, off-set by decreased sales in Parts services. All of the following revenues' data for the operational segments does not reflect the elimination of inter-company transactions.

*Revenues from MRO services.* Revenues from MRO services increased to \$54.3 million for the year ended December 31, 2008 from \$49.4 million for the year ended December 31, 2007, an increase of 9.9%. The increase in MRO services revenues in the year ended December 31, 2008 was primarily attributable to increased sales to existing customers and, to a lesser degree, to new customers.

*Revenues from OEM of Heat Transfer products.* Revenues from OEM of Heat Transfer products segment increased to \$27.9 million for the year ended December 31, 2008 from \$23.5 million for the year ended December 31, 2007, an increase of 18.7%. The increase in that segment's revenues was primarily attributable to increased sales to new customers.

*Revenues from OEM of Electric Motion Systems.* Revenues from OEM of Electric Motion Systems segment were \$9.8 million for the year ended December 31, 2008, and are attributable to the consolidation of Bental operations commencing from August 18, 2008. There were no revenues in this segment in previous years.

*Revenues from parts services.* Revenues from parts services decreased to \$17.3 million for the year ended December 31, 2008 from \$20.4 million for the year ended December 31, 2007, a decrease of 15.2%. The decrease in parts services revenues was primarily attributable to the very large one-time parts sale during 2007 to Viva Mexico for \$2.7 million and a general decline in parts sales.

*Cost of revenues.* Cost of revenues increased to \$80.6 million for the year ended December 31, 2008 from \$65.2 million for the year ended December 31, 2007, an increase of 23.6%. The increase in cost of revenues was primarily attributable to the significant increased revenues in the OEM operations and the increase in MRO services revenues, off-set by a decrease in parts services revenues, resulting in decreased costs in that segment. Cost of revenues as a percentage of revenues after eliminating intercompany transactions increased to 78.0% in the year ended December 31, 2008 from 73.5% for the year ended December 31, 2007. All of the following cost of revenues' data for the operational segments does not reflect the elimination of inter-company transactions.

*Cost of revenues for MRO services.* Cost of revenues for MRO services increased to \$43.7 million for the year ended December 31, 2008 from \$35.2 million for the year ended December 31, 2007, an increase of 24%, primarily as a result of costs associated with increased revenues. Cost of revenues as a percentage of revenues in this segment increased to 80.5% in the year ended December 31, 2008 from 71.3% for the year ended December 31, 2007, primarily as a result of product mix with lower margins sold during year 2008 as well as increased production costs in 2008.

*Cost of revenues for OEM of Heat Transfer products.* Cost of revenues for OEM Heat Transfer products increased to \$21.1 million for the year ended December 31, 2008 from \$17.9 million for the year ended December 31, 2007, an increase of 17.9%, primarily as a result of increased revenues. Cost of revenues as a percentage of revenues in this segment was 75.6% in the year ended December 31, 2008, similar to 76.2% for the year ended December 31, 2007.

*Cost of revenues for OEM of Electric Motion Systems.* Cost of revenues for OEM of Electric Motion Systems segment was \$7.8 million for the year ended December 31, 2008, and is attributable to the consolidation of Bental operations commencing from August 18, 2008. Cost of revenues as a percentage of revenues in this segment was 80.5% in the year ended December 31, 2008. There were no costs in this segment in previous years.

*Cost of revenues for parts services.* Cost of revenues for parts services decreased to \$13.9 million for the year ended December 31, 2008 from \$16.6 million for the year ended December 31, 2007, a decrease of 16.1%, primarily as a result of decreased parts revenues. Cost of revenues as a percentage of revenues decreased to 80.5% in the year ended December 31, 2008 from 81.4% for the year ended December 31, 2007, primarily as a result of efforts to improve the profitability of the parts segment during 2008.



*Research and development net.* TAT did not incur any material research and development expenses in the years ended December 31, 2008 and 2007.

*Selling and marketing expenses.* Selling and marketing expenses increased to \$4.4 million for the year ended December 31, 2008 from \$3.7 million for the year ended December 31, 2007, an increase of 17.5%. The increase in selling and marketing expenses was primarily attributable to increased commissions paid as a result of increased revenue in 2008. Selling and marketing expenses as a percentage of revenues were 4.2% for the year ended December 31, 2008 and 2007.

*General and administrative expenses.* General and administrative expenses increased to \$12.4 million for the year ended December 31, 2008 from \$11.0 million for the year ended December 31, 2007, an increase of 12.8%. The increase in general and administrative expenses is primarily attributable to increased professional fees incurred by Limco as a result of it being a public company and one-time compensation charge of approximately \$1.2 million arising from the retirement of certain managers. General and administrative expenses as a percentage of revenues slightly increased to 12.4% for the year ended December 31, 2008 from 12.0% for the year ended December 31, 2007.

*Operating income.* The presentation of operating income data is after elimination of intercompany transactions of \$1.7 million in the year ended December 31, 2008 and \$1.6 million in the year ended December 31, 2007 and net of corporate general and administrative expenses of \$2.9 million in the year ended December 31, 2008 and \$5.0 million in the year ended December 31, 2007. Operating income decreased to \$5.9 million for the year ended December 31, 2008 from \$8.8 million for the year ended December 31, 2007, a decrease of 32.3%. The decrease in operating income was primarily attributable to the decrease in the gross margin in 2008 compared with 2007 and to lesser extent to an increase in general and administrative expenses and selling and marketing expenses in 2008.

*Financial income (expenses), net.* Financial income, net was \$1.2 million for the year ended December 31, 2008 compared to financial income, net of \$0.7 million for the year ended December 31, 2007. In 2008 and in 2007 financial income was principally attributable to the investment of a portion of the proceeds Limco and TAT received from the initial public offering of Limco in July 2007 offset by higher interest charged on increased debt.

*Other Income (expenses).* TAT had other expense of \$0.2 million for the year ended December 31, 2008 compared to other income of \$26.5 million for the year ended December 31, 2007. Other expenses in 2008 primarily resulted from a loss on sale of corporate and government bonds during the later part of 2008. Other income in 2007 primarily resulted from capital gain of \$26.4 million for the year ended December 31, 2007 attributable to the sale by Limco and TAT of shares of common stock of Limco in connection with Limco's initial public offering in July 2007.

*Minority Interest.* TAT recognized a minority interest of \$1.5 offset by its shares in results of affiliate company prior to its consolidation of \$0.7 million, for the year ended December 31, 2008. TAT recognized a minority interest of \$0.8 million for the year ended December 31, 2007.

*Income taxes.* Total income tax expense for the year ended December 31, 2008 amounted to \$1.8 million, compared to \$3.2 million for the year ended December 31, 2007. In 2008 the decrease is primarily attributable to a \$0.9 million decrease in Limco's income taxes from \$2.8 million in 2007 to \$1.9 million in 2008, due to decreased pretax income offset by additional tax owed for tax positions taken in previous years and recognized as tax expense in the current year. Also impacting income tax expense was the 1.1% appreciation of the NIS against the dollar in 2008, as a result of which TAT did not record a tax expense in 2008 with respect to its operations in Israel. In addition, income tax expense in 2008 was offset by a \$0.2 million which was recorded as deferred tax income related to intangible assets included in the acquisition on Bental.

*Net income.* In the year ended December 31, 2008, net income was \$5.67 million, compared with net income of \$32.7 million in the year ended December 31, 2007.

#### ***Quarterly Results of Operations***

The following table presents the consolidated statements of operations data for each of the eight fiscal quarters ended December 31, 2009, in dollars and as a percentage of revenues. In the opinion of TAT's management, this unaudited information has been prepared on the same basis as TAT's audited consolidated financial statements and includes all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation of the unaudited information for the quarters presented. The results of operations for any quarter are not necessarily indicative of results that TAT might achieve for any subsequent periods.

	Three months ended							
	2009				2008			
	Dec. 31,	Sept. 30,	June 30,	Mar. 31,	Dec. 31,	Sept. 30,	June 30,	Mar. 31,
	(unaudited, \$ in thousands)							
Revenues	\$ 18,360	\$ 18,756	\$ 21,432	\$ 24,543	\$ 31,144	\$ 26,702	\$ 23,200	\$ 22,243
Cost of revenues	16,661	14,521	17,607	18,106	25,191	20,684	18,266	16,422
Gross profit	1,699	4,235	3,825	6,437	5,953	6,018	4,934	5,821
Research and Development costs	183	125	207	165	-	-	-	-
Selling and marketing expenses	926	804	1,110	879	1,001	1,329	1,107	932
General and administrative expenses	5,784	3,368	2,884	2,943	3,608	3,085	2,807	2,907
Capital gain from sale of the propellers & parts businesses	(4,400)	-	-	-	-	-	-	-
Operating income (loss)	(794)	(62)	(376)	2,450	1,344	1,604	1,020	1,982
Financial income (expenses) net	196	87	161	(295)	318	207	359	290
Other income (expense), net	(271)	127	353	(209)	(236)	-	-	-
Income before income taxes	(869)	152	138	1,946	1,426	1,811	1,379	2,272
Income taxes	201	(1,582)	(125)	741	420	818	168	389
Share in income (loss) of an associated companies	(32)	-	-	-	-	240	434	—
Net income	(1,102)	1,734	237	1,205	1,006	1,233	1,645	1,883
Net income attributable to non controlling interest	84	(571)	287	(147)	(320)	(554)	(241)	(384)
Net income attributable to TAT Technologies Shareholders	\$ (1,018)	1,163	\$ 550	\$ 1,058	\$ 686	679	\$ 1,404	\$ 1,499
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	90.7	77.4	82.2	73.8	80.9	77.5	78.7	73.7
Gross profit	9.3	22.6	17.8	26.2	19.1	22.5	21.3	26.3
Research and Development costs	1.0	0.7	1.0	0.7	-	-	-	-
Selling and marketing expenses	5.0	4.2	5.2	3.6	2.9	5.0	4.8	4.6
General and administrative expenses	31.6	18.0	13.4	11.9	11.8	11.6	12.1	12.7
Capital gain from sale of the propellers & parts businesses	(23.9)	-	-	-	-	-	-	-
Operating income (loss)	(4.4)	(0.3)	(1.8)	10.0	4.3	6.0	4.4	8.9
Financial income	4.2	1.1	3.0	2.1	3.3	1.4	3.2	2.3
Financial expenses	(3.6)	(0.6)	(2.2)	(3.3)	(2.3)	(0.6)	(1.7)	(0.8)
Other income (expense), net	(0.9)	0.6	1.6	(0.9)	(0.8)	0	0	0
Income before income taxes	(4.7)	0.8	0.6	7.9	4.6	6.8	5.9	10.2
Income taxes	1.1	(8.4)	(0.6)	3.0	1.3	3.1	0.7	1.7
Share in income (loss) of an associated companies	(0.2)	-	-	-	-	0.9	1.9	-
Net income	(6.0)	9.2	1.3	4.9	3.2	4.6	7.1	8.4
Net income attributable to non controlling interest	0.5	(3.0)	1.3	(0.6)	(1.0)	(2.1)	(1.0)	(1.7)
Net income attributable to TAT Technologies Shareholders	(5.5)%	6.2%	2.6%	4.3%	2.2%	2.5%	6.1%	6.7%

TAT expects its operating results to fluctuate significantly in the future as a result of various factors, many of which are outside of TAT's control, including the timing of orders, the provision of services and deliveries. Consequently, TAT believes that period-to-period comparisons of its operating results may not necessarily be meaningful, and as a result, you should not rely on them as an indication of future performance.

**Seasonality**

TAT believes that there is a seasonal trend in the MRO services sector. Many airlines decrease their maintenance requirements in the peak air travel summer months and increase their maintenance requirements in the winter months when air travel is not as great.

**Conditions in Israel**

TAT is incorporated under the laws of, and its principal executive offices and manufacturing and research and development facilities are located in, the State of Israel. See “RISK FACTORS” for a description of governmental, economic, fiscal, monetary or political policies or factors that have materially affected or could materially affect TAT’s operations.

**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. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs.

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

### Impact of Currency Fluctuation and of Inflation

TAT reports its financial results in dollars and receives payment in dollars or dollar-linked NIS for all of its sales while it incurs a portion of its expenses, principally salaries and related personnel expenses, in NIS. Additionally, certain assets, as well as a portion of its liabilities, are denominated in NIS. Therefore, the dollar cost of its operations is influenced by the extent to which any inflation in Israel is offset on a lagging basis, or is not offset by the devaluation of the NIS in relation to the U.S. dollar. When the rate of inflation in Israel exceeds the rate of devaluation of the NIS against the U.S. dollar, the dollar cost of operations in Israel increases. If the dollar cost of operations in Israel increases, its dollar-measured results of operations will be adversely affected. TAT cannot assure you that TAT will not be materially and adversely affected in the future if inflation in Israel exceeds the devaluation of the NIS against the dollar or if the timing of the devaluation lags behind inflation in Israel.

The following table presents information about the rate of inflation in Israel, the rate of devaluation (appreciation) of the NIS against the U.S. dollar, and the rate of inflation of Israel adjusted for the devaluation:

Year ended December 31,	Israeli inflation rate%	NIS appreciation (devaluation) to the US dollar rate%	Israeli inflation adjusted for appreciation (devaluation) %
2003	(1.9)	7.6	5.7
2004	1.2	1.6	2.8
2005	2.4	(6.8)	(4.4)
2006	(0.1)	8.2	8.1
2007	3.4	9.0	12.4
2008	3.8	1.1	4.9
2009	4.0	0.7	4.7

A devaluation of the NIS in relation to the U.S. dollar has the effect of reducing the U.S. dollar amount of any of its expenses or liabilities which are payable in NIS, unless these expenses or payables are linked to the U.S. dollar. This devaluation also has the effect of decreasing the U.S. dollar value of any asset which consists of NIS or receivables payable in NIS, unless the receivables are linked to the U.S. dollar. Conversely, any increase in the value of the NIS in relation to the U.S. dollar has the effect of increasing the U.S. dollar value of any unlinked NIS assets and the U.S. dollar amounts of any unlinked NIS liabilities and expenses. During the years 2008 and 2009, the NIS appreciated against the U.S. dollar, which resulted in a significant increase in the U.S. dollar cost of TAT's NIS expenses. Such trend was reversed during the first three months of 2010 since the U.S. dollar devaluated compared to the NIS.

Because exchange rates between the NIS and the dollar fluctuate continuously, exchange rate fluctuations and especially larger periodic devaluations will have an impact on TAT's profitability and period-to-period comparisons of its results. The effects of foreign currency re-measurements are reported in TAT's consolidated financial statements in current operations. TAT cannot assure you that in the future its results of operations may not be materially adversely affected by currency fluctuations.

#### **Corporate Tax Rate**

Israeli companies are generally subject to income tax on their taxable income. The applicable rate for 2009 was 26% and will be further gradually reduced to 18% in 2016 and thereafter. However, the rate is effectively reduced for income derived from an approved enterprise and beneficiary enterprise. Because TAT has elected to participate in the alternative package of tax benefits for its current approved enterprise and beneficiary enterprise under the Law for the Encouragement of Capital Investments, 1959, as amended, the income derived from those enterprises will be exempt from Israeli corporate tax for a specified benefit period (except to the extent that dividends are distributed during the tax-exemption period other than upon liquidation) and subject to reduced corporate tax rates for an additional period. The tax benefits attributable to its current approved enterprise and beneficiary enterprise are scheduled to expire in phases between 2010 and 2017. Certain investment income derived by TAT from investments may not be regarded by the Israeli tax authorities as income from TAT's approved and beneficiary enterprises and consequently may be taxed at the regular statutory rate in Israel.

Certain of TAT's subsidiaries operate in and are subject to the tax laws of various other jurisdictions, primarily the United States. TAT's U.S. subsidiaries are taxed based on federal and state tax laws. The effective tax of TAT's U.S. subsidiaries was 38%, 41.5% and 35.6% in the years ended December 31, 2009, 2008 and 2007, respectively.

#### **Recently Issued Accounting Standards**

Effective June 15, 2009, the Company adopted ASC 855, "Subsequent Events", establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statement are issued or are available to be issued. The Company has evaluated all subsequent events through the date the financial statements were issued. The adoption of this ASC did not have a material effect on the Company's consolidated financial statements.

Effective January 1, 2009, the Company adopted, ASC 350-30 "Determination of the Useful Life of Intangible Assets" that amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC 350. ASC 350-30 requires a consistent approach between the useful life of a recognized intangible asset under ASC 350 and the period of expected cash flows used to measure the fair value of an asset under ASC 805. The ASC also requires enhanced disclosures when an intangible asset's expected future cash flows are affected by an entity's intent and/or ability to renew or extend the arrangement. The adoption of this ASC did not have a material effect on the Company's consolidated financial statements.

Effective January 1, 2009, the Company adopted ASC 805 "Business Combinations". ASC 805 establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any Non controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination.

In December 2007, the FASB issued a new standard which established the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability (as was previously the case); that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or gains or losses on purchases or sales; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also required changes to certain presentation and disclosure requirements. For TAT, the standard was effective beginning January 1, 2009. The provisions of the standard were applied to all NCIs prospectively, except for the presentation and disclosure requirements, which were applied retrospectively to all periods presented. As a result, upon adoption, TAT retroactively reclassified the "Minority interest in subsidiaries" balance previously included in the "Other liabilities" section of the consolidated balance sheet to a new component of equity with respect to NCIs in consolidated subsidiaries. The adoption also impacted certain captions previously used on the consolidated statement of income, largely identifying net income including NCI and net income attributable to TAT and with the connection with the merger with Limco-Piedmont see note 3(b)(2).

In April 2009, the FASB issued ASC 805-20 "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies". ASC 805-20 amends the provisions in ASC 805 for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. ASC 805-20 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and provisions in SFAS No. 141 for acquired contingencies. ASC 805-20 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of ASC 805-20 did not have a material effect on Company's consolidated financial statements.

In November 2008, the FASB ratified Emerging Issues Task Force ("EITF") 08-6, "Equity Method Investment Accounting Considerations," as codified in Accounting Standards Codification ("ASC") Topic 323. This guidance clarifies that the initial carrying value of an equity method investment should be recognized using a cost accumulation model and generally excludes contingent consideration. This guidance also clarifies that the equity method investment as a whole should be assessed for other-than-temporary impairment and that a separate impairment assessment of the underlying assets is not required. An equity method investor shall recognize its share of any impairment charge recorded by an investee and consider the effect, if any, of the impairment on the investor's basis difference in the assets giving rise to the investee's impairment charge. In addition, this guidance concludes that an equity method investor shall recognize gains or losses in earnings for the issuance of shares by the equity method investee, as if the investor had sold a proportionate share of its investment. This guidance is effective on a prospective basis in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company adopted this guidance commencing January 1, 2009. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.



In January 2010, the FASB updated the "Fair Value Measurements Disclosures". More specifically, this update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value, and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. As applicable to TAT, this will become effective as of the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 roll forward information, which is required for annual reporting periods beginning after December 15, 2010 and for interim reporting periods within those years. As applicable to the Company, the adoption of the new guidance will not have a material impact on its consolidated financial statements.

Consolidation of Variable Interest Entities - In June 2009, the FASB issued FAS 167, "Amendments to FASB Interpretation No. 46(R)", codified in ASC Topic 810, "Consolidation". The new guidance eliminates FASB Interpretation 46(R) (FIN 46(R))'s exceptions for consolidating qualifying special-purpose entities, contains new criteria for determining the primary beneficiary, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a variable interest entity. The elimination of the qualifying special-purpose entity concept and its consolidation exceptions means more entities will be subject to consolidation assessments and reassessments. Furthermore, this guidance requires, inter alia, a company to assess the determination of the primary beneficiary of a VIE based on whether the company has the power to direct matters that most significantly impact the activities of the VIE, and the obligation to absorb losses or the right to receive benefits of the VIE. This guidance also requires additional disclosures regarding an entity's involvement in a variable interest entity. This guidance is effective for fiscal years beginning after November 15, 2009. Early application is prohibited. The Company does not expect the adoption of the standard to have a material impact on our financial condition or results of operations.

## **Liquidity and Capital Resources**

In 2009, TAT received loans and utilized credit facilities from financial institutions, in the total amount of \$3.8 million, primarily for the financing of the final stage of the acquisition of Bental's shares and in order to increase working capital.

TAT had cash and cash equivalents and short-term deposits of \$33.5 as of December 31, 2009 (including restricted cash in the amount of \$5 million), as compared with cash and cash equivalents and short-term deposits of \$46.2 million as of December 31, 2008 (including restricted cash on the amount of \$1 million). The decrease in cash and cash equivalents in 2009 included, among others, the \$7.5 million paid in dividends and \$2 million used to repurchase the Company's shares.

Capital expenditures for the years ended December 31, 2009, 2008 and 2007 were approximately \$4.9 million, \$3.5 million and \$6.3 million, respectively. These capital expenditures were principally for the purchase of equipment for the OEM and MRO facilities. TAT funded these expenditures from cash flows from operations and also from financing activities, derived from the initial public offering of Limco in July 2007. TAT expects that capital expenditures for 2010 will decrease and will be primarily for expanded capabilities and capacity for OEM operations and MRO services. TAT expects that its available cash and cash equivalents and cash flow that will be generated from operations will be sufficient to enable it fund its capital expenditures.

TAT believes that anticipated cash flow from operations and its current cash balances will be sufficient to meet its cash requirements for at least 12 months. TAT's future capital requirements will depend on many factors, including its rate of revenue growth, the expansion of its selling and marketing activities, costs associated with expansion into new markets and the timing of the introduction of new products and services.

## Cash Flows

The following table summarizes TAT's cash flows for the periods presented:

	Year Ended December 31,		
	(in thousands)		
	2009	2008	2007
Net cash provided by operating activities	\$ (79)	\$ 1,692	\$ 804
Net cash provided by (used in) investing activities	770	12,368	(24,719)
Net cash provided by (used in) financing activities	(8,912)	5,170	33,267
Effect of changes in exchange rate on cash and cash equivalents of foreign currency subsidiary company	(110)	(445)	—
Net increase (decrease) in cash and cash equivalents	(8,331)	18,785	9,352
Cash and cash equivalents at beginning of the year	33,899	15,114	5,762
Cash and cash equivalents at end of the year	\$ 25,568	\$ 33,899	\$ 15,114

For the year ended December 31, 2009, net cash used in operating activities was approximately \$0.1million compared to net cash provided by operating activities of \$1.7 million and \$0.8 million for the years ended December 31, 2008 and 2007, respectively. Net cash used in operating activities for the year ended December 31, 2009 was primarily attributable to net income of \$1.75 million, and in addition to depreciation and amortization of \$2.97 million, decrease in trade accounts receivables of \$3.85 million, deferred income taxes of \$1.7 million and a \$1.6 million increase in provision for doubtful debts, which was primarily offset by a \$4.4 million of profit from selling the propellers and parts business to FAvS, a \$3.9 million decrease in trade accounts payables, \$2.2 million increase in other accounts receivables and a \$1.4 million decrease in other accounts payables.

Net cash provided by operating activities for the year ended December 31, 2008 was primarily attributable to net income of \$5.7 million, and in addition to depreciation and amortization of \$3.4 million and a \$1.5 million increase in the minority shares of profit for the period, which was primarily offset by a \$2.4 million increase in inventories, a \$4.2 million increase in trade receivables, and a \$0.9 million increase in other accounts receivables. The increase in trade receivables in 2008 resulted primarily from the increased revenues. The increase in inventories in 2008 resulted from purchases of inventories in relatively large quantities sufficient to support long term contracts, enabling TAT to enjoy relatively lower prices.

Net cash provided by investing activities was approximately \$0.8 million and \$12.4 million for the years ended December 31, 2009 and 2008, compared to net cash used in investing activities of approximately \$24.8 million for the year ended December 31, 2007. Of the cash provided by investing activities in the year ended December 31, 2009 approximately \$24.1 million were provided by proceeds received from selling short term investments, offset by \$15.7 million used for the purchase of short term investments, \$4.1 million of increased in restricted deposits, \$2.8 million used for the purchase of property and equipment, primarily production equipments and building improvements and \$2.1 million used for the purchase of intangible assets.

Of the cash provided by investing activities in the year ended December 31, 2008, approximately \$26.4 million were provided by proceeds received by Limco from selling corporate and municipal bonds, offset by \$9.3 million used for the purchase of short term investments and \$3.6 million used for the purchase of property and equipment, primarily production equipments and building improvements.

Net cash used in financing activities was approximately \$8.9 million for the year ended December 31, 2009 compared to net case provided by financing activities of approximately \$5.2 million for the year ended December 31, 2008, and compared to net cash used in financing activities of approximately \$33.3 million for the year ended December 31, 2007. In the year ended December 31, 2009, the net cash used was primarily attributable to the payment of dividend of \$7.5 million, repurchase of Company's shares of \$2.0 million, purchase of shares in respect of put option to minority shareholders in a subsidiary of \$2.2 million, which was primarily offset by proceeds from long term loans of \$2.5 million and short term credit received from banks of \$1.1 million.

In the year ended December 31, 2008, the net cash provided was primarily attributable to the receiving of a \$5.0 million loan from financial institution, repayable in 3-5 years.

In the year ended December 31, 2007, the net cash provided was primarily attributable to the \$41.2 million provided by the initial public offering of Limco in July 2007. In October 2007, TAT distributed a cash dividend of approximately \$2.6 million, and in July 2007, TAT repaid all of its then outstanding long-term loans in the aggregate amount of \$8.0 million.

**A. Research and Development, Patents and Licenses**

Not applicable.

**B. Trend Information**

Our revenues in the US in fiscal 2010 are expected to be impacted by the decline in the aerospace industry. Although we anticipate this trend to continue for the foreseeable future, we expect that as the aerospace industry recovers, our revenues will again trend upward.

In addition, following the completion of the FAvS transaction on December 4, 2009, pursuant to which we contributed our Parts and Propeller businesses to FAvS, our revenues are expected to be lower than in previous years.

Other than the above mentioned, there are no significant recent trends that are material to production, sales and inventory, the state of the order book and costs and selling prices since the latest fiscal year.

**C. Off-Balance Sheet Arrangements**

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

**D. Tabular Disclosure of Contractual Obligations**

The following table summarizes our minimum contractual obligations and commercial commitments as of December 31, 2009 and the effect we expect them to have on our liquidity and cash flow in future periods.

Contractual Obligations	Payments due by Period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Long-term debt obligations	\$ 7,736,000	\$ 373,000	\$ 2,318,000	\$ 5,045,000	\$ -
Operating lease obligations (1)	2,745,777	582,700	1,149,068	904,000	110,000
Purchasing commitments	6,418,000	5,665,000	753	--	--
Estimated long-term loan interest	1,053,000	331,000	304,000	304,000	--
Total	\$ 17,952,777	\$ 6,951,700	\$ 3,771,821	\$ 6,253,000	\$ 110,000

- (1) Pursuant to the terms of the agreement we entered into with TAT Industries in 2000 to purchase its operations relating to the manufacture of aviation accessories, we rent from TAT Industries the real estate and buildings encompassing an area of approximately 302,000 square feet for a period of 24 years and eleven months. In consideration we agreed to pay TAT Industries annual rental payments of approximately \$335,000 for the year ended December 31, 2009 with an additional incremental payment of 2% per year. Such rental rates are subject to revaluation every fifth year.

In addition, we have long-term liabilities for severance pay that are calculated pursuant to Israeli severance pay law generally based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. As of December 31, 2009, our severance pay liability, net was \$560,000.

**Item 6. Directors, Senior Management and Employees**

**A. Directors and Senior Management**

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

<b>Name</b>	<b>Age</b>	<b>Position</b>
Giora Inbar	55	Chairman of the Board of Directors
Shmuel Fledel	57	Chief Executive Officer
Avi Ortal	43	Chief Executive Officer of Limco-Piedmont
Shmuel Mendel	58	Chief Executive Officer of Bental
Yaron Shalem	37	Chief Financial Officer
Nathan Galili	54	Vice President Operations
Avi Shani	62	External Director **
Daniela Yaron-Zoller	42	Director **
Jan Loeb	51	Director
Ronen Yehezkel	39	Director
Yankale Shahar	48	Director * **

(\*) Will be approved in the next annual shareholders meeting

(\*\*) Member of the audit committee

**Brigadier General (Res.) Giora Inbar** was elected as the Chairman of TAT's Board of Directors in January 2008. Brigadier General (Res.) Inbar currently serves as the chairman of the Board of Directors of Isal Amlat, TAT's controlling shareholder, and as the chief executive officer of KMN Holdings Ltd. ("KMN"), the parent of Isal Amlat. Brigadier General (Res.) Inbar also serves as chairman of the Board of Directors of a number of companies in the KMN Group, including TAT's parent company TAT Industries. Brigadier General (Res.) Inbar served in the Israel Defense Forces for 25 years retiring with the rank of Brigadier General in 1998. Brigadier General (Res.) Inbar holds a B.A. degree and an MBA degree in Business Administration from Haifa University and is also a graduate of the US Army War College.

**Dr. Shmuel Fledel** has served as TAT's Chief Executive Officer since May 2008. Prior to joining TAT, between the years 2005 and 2008, Dr. Fledel served as Vice President, Maintenance and Engineering of El-AL Israel Airlines Ltd. From 1998 to 2005, Dr. Fledel served as the Chief Executive Officer of Cyclone Aviation Products Ltd., an Israeli company which serves as the Elbit Systems Group's design and production center for metal and composite structural aircraft components and parts for leading aerospace companies and OEMs. From 1995 to 1998, Col (Res.). Dr. Fledel served as the Depot Commander of the Israeli Air Force. Dr. Fledel holds a Ph.D. and a MS. degree in Structural Dynamics, both from the University of Maryland, and a BS. degree in Aeronautical Engineering from the Technion - Israel Institute of Technology.

**Dr. Avi Ortal** has served as Limco-Piedmont's Chief Executive Officer since September 2009. Prior to that, Dr. Ortal served as the CEO of KMN Capital Ltd., a subsidiary of KMN, and as a VP of KMN, since February 2008. From March 1999 to January 2008, Dr. Ortal was a partner in the law firm of Zellermyer, Pelossof & Co., Israel and prior to that an associate at the New York law firm Davis Polk & Wardell, as well as an Adjunct Lecturer (Mergers & Acquisitions) at the Duke University School of Law. Dr. Ortal holds an LL.B. degree from the College of Management, an L.L.M. degree and a S.J.D degree from Duke University School of Law and an MBA degree from Northwestern University Kellogg Business School.

**Shmulik Mandel** has served as Bental's Chief Executive Officer since June 2006. Between the years 1998-2006, Mr. Mandel served as the Chairman of the Board of Bental. From 1995 to 1998 Mr. Mandel served as the director of economic affairs for the United Kibutzim Movement in Israel. From 1993 to 2006 Mr. Mandel served as Chairman of the Board of Director of different corporations, among them Atudot Pension Fund Ltd., Lehavot Production and Shield Ltd., Lordan Ltd. and The Investment Company of the Bank for Industrial Development. Mr. Mandel holds a B.S degree in Computer Sciences from the Technion.

**Yaron Shalem** has served as TAT's Chief Financial Officer since August 2008. Prior to that, between the years 2006 and 2008 Mr. Shalem served as the CFO of OrganiTech USA Inc. — a provider of high-tech hydroponics factories. Prior to that, during years 2003-2005 Mr. Shalem served as the CFO of Arelnet Ltd. — a provider of IP based telecom switches. Before that Mr. Shalem was the CFO of CellPay Ltd, an Israeli start-up provider in the Mobile Payment arena. Mr. Shalem holds a B.A. in Economy & Accounting from Tel Aviv University and an EMBA from Bar-Ilan University.

**Nathan Galili** has served as TAT's VP Operations since August 2008. Prior to that Mr. Galili served for many years at IAI (Israeli Aerospace Industries Ltd.). During 2007 he served at IAI as General Manager of the Boeing 787 program, and prior to that, during 1995-2006 as General Manager of the Ramta Division of IAI (dealing with development of Fast Attack Craft, Built to Print and Built to Spec of Aerostructure Components, armored vehicles, UGV's etc.). During 1992-1994 Mr. Galili was the Deputy General manager of the Lahav Division of IAI, dealing with the design and upgrade of Fighter and Training Aircraft. Mr. Galili holds a B.S in Aeronautical Engineering from Technion Haifa and an MBA from Bar-Ilan University.

**Avi Shani** has served as an outside director (within the meaning of the Israeli Companies Law) since August 2008 and is a member of TAT's Audit Committee. Mr. Shani is also serving as a director of Psagot Providence Funds and of Psagot Pensions Funds. From 2005 until 2008 Mr. Shani served as the CEO of TCM Mobile, a start up company, and prior to that, during years 2000 - 2004 he served as Executive Vice President Investments and Chief Economist of IDB Development, a leading Israeli holding company, in charge of new Investments. Mr. Shani holds a B.S degree in Economics and an MBA, both from Tel Aviv University.



**Daniela Yaron-Zoller** was elected as a director in January 2008. Ms. Yaron-Zoller currently serves as a director of the strategic customer division of NESS Technologies Ltd. Ms. Yaron-Zoller also serves as a member of the Board of Directors of several companies in the KMN Group. Ms. Yaron-Zoller holds a B.A. degree in Law from the University of Tel Aviv.

**Jan Loeb** was elected as a director by our Board of Directors in August 2009. Mr. Loeb has served as President of Leap Tide Capital Management, Inc., a capital investment firm, since 2007. From February 2005 through January 2007, he served as a portfolio manager of Amtrust Capital Management, Inc. From February 2004 through January 2005, Mr. Loeb was a Portfolio Manager for Chesapeake Partners, a capital investment firm. From January 2002 through December 2004, Mr. Loeb was a Managing Director of Jefferies & Company, Inc., an investment banking firm based in New York City. From 1994 through 2001, Mr. Loeb was a Managing Director of Dresdner Kleinwort and Wasserstein, Inc., an investment banking firm based in New York City, which was formerly known as Wasserstein Perella & Co., Inc. Mr. Loeb is also a director of American Pacific Corp and Pernix Therapeutics Holdings, Inc. Mr. Loeb graduated from Baruch College – City University of New York with a baccalaureate in Finance and Investments.

**Ronen Yehezkel** (39) was elected as a director by our Board of Directors in June 2010. Mr. Yehezkel has served as the company treasurer of El Al Airlines Ltd., the national Israel airlines, from 2003 through 2006. From May 2008 through January 2010, Mr. Yehezkel served as the business development manager of KMN Holdings Ltd., the controlling shareholder of Isal Amlat ("KMN"). Since February 2010, he serves as the Chief Financial Officer of KMN and also serves as a member of the Board of Directors of several companies in the KMN Group. Mr. Yehezkel holds a B.A. degree in Economics and an MBA from the University of Tel Aviv.

**Mr. Yacov Shahar (48)** served as the Chief Financial Officer and Vice President of Elad Group, Canada, from 2004 until 2005, and prior to that, during years 1990-2004 he served as a customer relations manager in the business division at Bank Hapoalim. Mr. Shahar serves as the company treasurer of El Al Airlines Ltd., the national Israel airlines, since 2006. Mr. Shahar holds a B.A. degree in Economics and Mathematics from the Hebrew University of Jerusalem.

## Compensation

The following table sets forth all the compensation TAT paid with respect to all of its directors and executive officers as a group for the year ended December 31, 2009.

	<b>Salaries, fees, Commissions and bonuses</b>	<b>Other benefits</b>
All directors and executive officers as a group (9 persons)	\$ 1,730,000	\$ 64,000

During the year ended December 31, 2009, TAT paid its directors, other than Messrs. Giora Inbar and Dr. Avraham Ortal (who received no compensation), the minimum amounts permitted by law to an outside director (within the meaning of the Israeli companies Law) which was: a per meeting attendance fee of NIS 2,300 (approximately \$585), plus an annual fee of NIS 61,820 (approximately \$15,720).

## B. 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. Our executive officers have individual responsibilities established by our chief executive officer and board of directors.

### Election of Directors

Our articles of association provide for a board of directors consisting of no less than two and no more than eleven members or such other number as may be determined from time to time at a general meeting of shareholders. Our board of directors is currently composed of 6 directors, including two outside directors within the meaning of the Israeli Companies Law.

Pursuant to our articles of association, all of our directors (except the outside directors) are elected at our annual general meeting of shareholders by a vote of the holders of a majority of the voting power represented and voting at such meeting and hold office until the next annual general meeting of shareholders and until their successors have been elected. All the members of our Board of Directors (except the outside directors) may be reelected upon completion of their term of office. Our board of directors may temporarily fill vacancies in the board until the next annual meeting of shareholders, provided that the total number of directors will not exceed the maximum number permitted under our articles of association.

The Israeli Companies Law requires the board of directors of a public company to determine a minimum number of directors with “accounting and financial expertise.” Our board of directors determined, accordingly, that at least two directors must have “accounting and financial expertise,” as such term is defined by regulations promulgated under the Israeli Companies Law.

We are exempt from the requirements of the NASDAQ Marketplace Rules with regard to the nomination process of directors since we are a controlled company within the meaning of NASDAQ Marketplace Rule 5615(c)(2). See below in this Item 6C. “Directors, Senior Management and Employees - Board Practices - NASDAQ Exemptions for a Controlled Company.”

#### **Outside and Independent Directors**

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

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

A person is qualified to serve as an outside director only if he or she has "accounting and financial expertise" or "professional qualifications," as such terms are defined by regulations promulgated under the Israeli Companies Law. At least one of the outside directors must have "accounting and financial expertise." Each of our outside directors has "accounting and financial expertise."

The outside directors are elected by a majority vote at a shareholders meeting. The shareholders voting in favor of their election must include at least one-third of the shares of the non-controlling shareholders of the company who voted on the matter (not including abstentions). This minority approval requirement need not be met if the total shareholdings of those non-controlling shareholders who vote against their election represent 1% or less of all of the voting rights in the company.

In general, outside directors serve for a three-year term and may be reelected to one additional three-year term. An outside director may be removed from office at the initiative of the board of directors at a special general meeting of shareholders, if the board resolves that the statutory requirements for that person's appointment as outside director no longer exist, or that the outside director has violated his or her duty of loyalty to the company. The resolution of the special general meeting of shareholders regarding the termination of office of an outside director requires the same majority that is required for the election of an outside director. The court may order the termination of the office of an outside director on the same grounds, following a motion filed by a director or a shareholder. If an outside directorship becomes vacant, the board of directors is required under the Israeli Companies law to convene a shareholders meeting immediately to appoint a new outside director.

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

Until the lapse of two years from termination of office, we may not engage an outside director to serve as an office holder and cannot employ or receive services from that person, either directly or indirectly, including through a corporation controlled by that person.

*Independent Directors.* NASDAQ Marketplace Rules require us to establish an audit committee comprised of at least three members and only of independent directors each of whom satisfies the respective “independence” requirements of the Securities and Exchange Commission and NASDAQ.

As a controlled company, within the meaning of NASDAQ Marketplace Rule 5615(c)(2), we are exempt from the NASDAQ Marketplace Rule which requires that a majority of our board of directors qualify as independent directors, within the meaning of the NASDAQ Marketplace Rules. See Item 6.C. “Directors, Senior Management and Employees - Board Practices - NASDAQ Exemptions for a Controlled Company.”

The independent directors of our company will meet at the meetings of the audit committee to discuss our annual and interim financial statements. At such sessions the independent directors will also discuss and approve transaction with interested parties, including recommending the compensation of all our senior officers, and will also nominate directors to be approved by our shareholders at the annual general meeting of shareholders. Our executive officers do not participate in any discussions or decisions that involve any aspect of their compensation.

Our board of directors has determined that our External directors qualify as independent directors under the requirements of the Securities and Exchange Commission and NASDAQ and as outside directors under the Israeli Companies Law requirements. Our board of directors has further determined that Ms. Daniela Yaron-Zoller qualifies as an independent director under the requirements of the Securities and Exchange Commission and NASDAQ.

## Audit Committee

Under the Israeli Companies Law, the board of directors of any public company must establish an audit committee. The audit committee must consist of at least three directors and must include all of the outside directors. 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, or a controlling shareholder or any of the controlling shareholder's relatives.

In addition, the NASDAQ Marketplace Rules require us to establish an audit committee comprised of at least three members, all of whom must be independent directors, each of whom is financially literate and satisfies the respective "independence" requirements of the Securities and Exchange Commission and NASDAQ and one of whom has accounting or related financial management expertise at senior levels within a company.

Our audit committee assists our Board of Directors in overseeing the accounting and financial reporting processes of our company and audits of our financial statements, including the integrity of our financial statements, compliance with legal and regulatory requirements, our independent registered public accountants' qualifications and independence, the performance of our internal audit function and independent registered public accountants, finding any defects in the business management of our company and proposing to our Board of Directors ways to correct such defects, approving related-party transactions as required by Israeli law, and such other duties as may be directed by our Board of Directors. The audit committee may consult from time to time with our independent auditors and internal auditor with respect to matters involving financial reporting and internal accounting controls.

Our audit committee consists of three members of our Board of Directors who satisfy the respective "independence" requirements of the Securities and Exchange Commission, NASDAQ and Israeli law for audit committee members. Our Board of Directors has determined that each member of our audit committee qualifies as an audit committee financial expert, as defined by rules of the Securities and Exchange Commission. The audit committee meets at least once each quarter.

## **Internal Audit**

The Israeli Companies Law requires the board of directors of a public company to appoint an internal auditor nominated by the audit committee. 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. The internal auditor must meet certain statutory requirements of independence. Mr. Doron Cohen has served as our internal auditor since December 24, 2008.

## **Directors' Service Contracts**

There are no arrangements or understandings between us and any of our subsidiaries, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company or any of our subsidiaries.

## **Approval of Related Party Transactions under Israeli Law**

### *Fiduciary Duties of Office Holders*

The Israeli Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An "office holder" is defined in the Israeli Companies Law as a director, general manager, chief business manager, deputy general manager, vice general manager, other manager directly subordinate to the general manager or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act at a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain (i) information regarding the business feasibility 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 requires that an office holder act in good faith and for the benefit of the company, including (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 by virtue of 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 and all related material information known to him or her and any documents in their position, in connection with any existing or proposed transaction by us. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or likely to have a material impact on the company's profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the office holder or a relative (as such term is described above) 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.

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

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



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

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

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

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

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

## **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 duty of loyalty, but may, if permitted by its articles of association, exculpate in advance an office holder from his 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 for Office Holders*

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

- Breach of his or her duty of care to the company or to another person;
- Breach of his or her duty of loyalty to the company, provided that the office holder acted in good faith and had reasonable cause to assume that his act would not prejudice the company's interests; and
- Monetary 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:

- 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 such office holder or which were imposed on him by a court, in proceedings the company instituted against the office holder or that were instituted on the company's behalf or by another person, or in a criminal charge from which the office holder was acquitted, or in a criminal proceeding in which the office holder was convicted of a crime 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:

- Undertake in advance to indemnify an office holder, except that with respect to a financial liability imposed on the office holder by any judgment, settlement or court-approved arbitration award, the undertaking must be limited to types of occurrences, which, in the opinion of the company's board of directors, are, at the time of the undertaking, foreseeable due to the company's activities and to an amount or standard that the board of directors has determined is reasonable under the circumstances; and
- 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 exempting an office holder from duty to the company shall be valid, where such insurance, indemnification or exemption relates to any of the following:

- Breach by the office holder of his duty of loyalty, except with respect to insurance coverage or indemnification if the office holder acted in good faith and had reasonable grounds to assume that the act would not prejudice the company;

- 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 committed with intent to derive an unlawful personal gain; and
- Any fine or forfeiture imposed on the office holder.

In addition, pursuant to the Israeli Companies Law, exemption of, procurement of insurance coverage for, an undertaking to indemnify or indemnification of an office holder must be approved by the audit committee and the board of directors and, if such office holder is a director or a controlling shareholder or a relative of the controlling shareholder, also by the shareholders general meeting. A special majority at the general meeting is required if a controlling shareholder is interested in such transaction as an office holder or as a relative of an office holder, as described above.

Our articles of association allow us to insure, indemnify and exempt our office holders to the fullest extent permitted by law, subject to the provisions of the Israeli Companies Law. We currently maintain directors' and officers' liability insurance to cover liabilities of the higher of \$10 million or 25% of our equity capital (net worth), per claim and in the aggregate. In July 2004, our shareholders approved a form of directors and officers letter of indemnification and exemption for liabilities and expenses incurred as a result of their acts in their capacity as directors and officers of our company, in an aggregate amount not to exceed \$5.0 million or 25% of our equity capital (net worth).

On February 8, 2009, following the approval by our board of directors and audit committee, our shareholders approved the purchase of a tail (runoff) policy insuring the directors and officers of our company in office prior to the acquisition of the control by Isal Amlat, as part of Isal Amlat's obligations under the purchase agreement. The resolution to obtain such policy was adopted by a super majority vote, as required for the approval of transactions with related parties under Israeli law. The policy will be in effect for 7 years, until January 1, 2015. The coverage limit under such policy is 10 million dollars and the premium for such policy is 115,000 dollars for the term of the policy.

Following our acquisition of the shares of Limco held by the public in July 2009 we purchased a tail policy insuring the former directors and officers of Limco. The coverage limit under the policy is \$25 million and the premium for such policy is \$190,000 dollars for the term of the policy.

On March 14, 2010, our board of directors and audit committee approved the purchase of a directors and officers insurance policy for the directors and officers of our company and its subsidiaries, Limco and Bental, and its controlling shareholder TAT Industries. The coverage limit under the policy is 25 million dollars and the premium for the insurance term (one year) is 135,000 dollars.

#### **NASDAQ Exemptions for a Controlled Company**

We are a controlled company within the meaning of NASDAQ Marketplace Rule 5615(c)(2), or Rule 5615(c)(2), because KMN beneficially owns more than 50% of our voting shares.

Under Rule 5615(c)(2), a controlled company is exempt from the following requirements of NASDAQ Marketplace Rules 5605(b)(1), 5605(d) and 5605(e) that would otherwise require that:

- The majority of the company's board of directors qualifies as independent directors, as defined under NASDAQ Marketplace Rules.
- The compensation of the chief financial officer and all other executive officers be determined, or recommended to the board of directors for determination, either by (i) a majority of the independent directors or (ii) a compensation committee comprised solely of independent directors.
- Director nominees must either be selected or recommended for the board of directors, either by (a) a majority of independent directors or (b) a nominations committee comprised solely of independent directors.

We intend to continue to rely on these exemptions provided under Rule 5615(c)(2).

#### **C. Employees**

As of December 31, 2009, we and our subsidiaries employed 530 employees, of whom 410 were employed in manufacturing and quality control, 56 were employed in engineering and research and development and 64 were employed in administration, sales and marketing. Of such employees, 303 were located in Israel and 227 were employed by Limco-Piedmont and located in the United States.

Certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists Association) are applicable to our Israeli employees by order of the Israeli Ministry of Labor. These provisions concern mainly the length of the workday, minimum daily wages for professional workers, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums. Furthermore, under the collective bargaining agreements, the wages of most of our employees are linked to the Consumer Price Index, although the extent of the linkage is limited.

In addition, Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment without due cause. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute which is similar to the United States Social Security Administration. The payments thereto amount to approximately 12% of wages, with the employee contributing approximately 43% and the employer approximately 56%.

A general practice followed by us, although not legally required, is the contribution of monies on behalf of its senior employees to a fund known as "Management Insurance." This fund provides a combination of savings plan, insurance and severance pay benefits to the employee, giving the employee a lump sum payment upon retirement and securing his right to receive severance pay, if legally entitled, upon termination of employment. The employee contributes an amount equal to approximately 5%-6% of his wages and the employer contributes an additional amount of approximately 13-1/3% - 16% of such wages.

**D. Share Ownership**

**Beneficial Ownership of Executive Officers and Directors**

Except as set forth in item 7A below, none of our directors and executive officers beneficially owns more than 1% of our outstanding shares.

## **Stock Option Plans**

On August 14, 2008, TAT's Board of Directors approved the grant to TAT's CEO of options to purchase 65,477 ordinary shares of TAT which represented 1% of the then outstanding share capital on a fully diluted basis. The options are exercisable in 3 equal portions vested after 2, 3 and 4 years commencing on May 19, 2008 and have an exercise price of \$6.15 per share. The fair value of the options was calculated based on Black & Scholes model and is \$191,000. Compensation expenses attributable to outstanding stock options were \$63 and \$47 for the years ended December 31, 2009 and 2008.

On May 12, 2010 TAT's board of directors approved, subject to stockholders approval at the annual meeting, a new stock option plan covering an aggregate of 280,000 ordinary shares. As of the date hereof, no options have been granted under the new plan.

## **Item 7. Major Shareholders and Related Party Transactions**

### **A. Major Shareholders**

Isal Amlat, a Tel Aviv Stock Exchange publicly traded company, organized under the laws of the State of Israel, is the beneficial holder of 53.7% of TAT's outstanding shares (4,732,351 shares), of which 10.06% (886,443 shares) are held directly by it and 43.6% (3,845,908 shares) are held directly by TAT's parent company TAT Industries. TAT Industries is 79.33% controlled by Isal Amlat. Isal Amlat is 81.65% controlled by KMN Holdings Ltd., an Israeli company publicly traded on the Tel Aviv Stock Exchange, which is 60.2% controlled by Ron Elroy. Leap-Tide Capital Management Inc., which is controlled by Mr. Jan Loeb, a member of our board of directors, is the beneficial holder of 5.9% of TAT's ordinary shares (522,607 shares). No other shareholder of TAT beneficially owns 5% or more of TAT's ordinary shares



The following table sets forth certain information as of June 28, 2010, 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)
Isal Amlat Investments (1993) Ltd. (3)	4,732,351	53.7%
TAT Industries (4)	3,845,908	43.6%
Leap-Tide Capital Management Inc.,	522,607	5.9%

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Ordinary shares relating to options and warrants currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 8,815,003 ordinary shares issued and outstanding as of June 28, 2010 (net of 258,040 dormant shares).
- (3) Includes 886,443 ordinary shares held directly by Isal Amlat and 3,845,908 ordinary shares held directly by TAT Industries, which is 79.33% controlled by Isal Amlat. As such, Isal Amlat may be deemed to be the beneficial owner of the aggregate 4,632,351 ordinary shares held directly by itself and TAT Industries. Isal Amlat is 81.65% controlled by KMN Holdings Ltd., an Israeli company publicly traded on the Tel Aviv Stock, which is 60.2% controlled by Ron Elroy.
- (4) TAT Industries is 79.33% controlled by Isal Amlat. As such, Isal Amlat may be deemed to be the beneficial owner of the aggregate 3,845,908 ordinary shares held directly by TAT Industries. Isal Amlat is 81.65% controlled by KMN Holdings Ltd., an Israeli company publicly traded on the Tel Aviv Stock, which is 60.2% controlled by Ron Elroy.

### Significant Changes in the Ownership of Major Shareholders

On December 19, 2007, Isal Amlat Industries (1994) Ltd. ("**Isal Industries**") purchased the controlling interests in TAT and in TAT Industries, TAT's controlling shareholder, by purchasing from Mr. Shlomo Ostersetzer, the former Chairman of TAT's Board of Directors and TAT's former President, Mr. Dov Zeelim, the former Vice Chairman of TAT's Board of Directors and TAT's former Chief Executive Officer, and FIMI Opportunity Fund, or FIMI, 10% of TAT's then outstanding ordinary shares for consideration of NIS 50.4M, and 54% of TAT Industries' then outstanding ordinary shares for consideration of NIS 105.3M.

The agreement between Isal Amlat and Mr. Zeelim, as amended on January 31, 2008, provided Isal Amlat with additional shares in TAT Industries purchased from Mr. Zeelim.

Pursuant to an agreement between Isal Amlat and Mr. Zeelim entered into in May 2008 in connection with Mr. Zeelim's resignation from the office of Chief Executive Officer of TAT, Mr. Zeelim exercised his put option on June 12, 2008 and 4.17% of TAT Industries' then outstanding ordinary shares were purchased by Isal Amlat.

On July 17, 2008 Isal Amlat and FIMI amended the terms of their agreement. Accordingly, 141,443 of TAT's ordinary shares constituting then 2% of TAT's outstanding shares were purchased by Isal Amlat in December 2008 at a price per share of \$19.343 and the remaining 100,000 of TAT's ordinary shares constituting then 1.1% of TAT's outstanding shares were purchased by Isal Amlat in November 2009 for a total consideration of USD 2 M.

In March 2008 and in September 2008, the board of directors of our parent company, TAT Industries, authorized the purchase by TAT Industries of up to NIS 20 million (approximately \$5.8 million) and NIS 10 million (approximately \$2.9 million), respectively, of our ordinary shares. TAT Industries purchased ordinary shares of our company for an aggregate purchase price of 6.5 million dollars under such purchase plans.

On March 11, 2009 and on August 13, 2009, TAT's board of directors authorized its management to engage Oppenheimer Israel Investment House for the blind trust purchase of TAT's shares under rule 10b5-1 of the Securities Exchange Act of 1934. The first purchase plan, which was discontinued on March 26, 2009, resulted on the purchase of 4,650 shares for a cumulative amount of \$ 26 thousand. The second purchase plan included licensing Oppenheimer Israel to purchase shares of TAT on a foreign stock exchange in an aggregate amount of up to \$2 million (approximately NIS 7.8 million) for a period of six months and at a price not exceeding \$9 per share. As of December 31, 2009, 253,390 shares were purchased, representing about 2.8% of the Company's share capital in consideration of approximately \$2 million (an average of \$7.90 per share). The purchased shares became dormant as defined in the Companies Law.

#### **Major 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 our transfer agent, as of June 28, 2010, there were 48 holders of record of our ordinary shares, of which 39 record holders holding less than 1.0% of our ordinary shares had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor is it representative of where such beneficial holders reside since many of these ordinary shares were held of record by brokers or other nominees including CEDE & Co., the nominee for the Depositary Trust Company (the central depository for the U.S. brokerage community), which held approximately 70% of our outstanding ordinary shares as of such date.

## **B. Related Party Transactions**

### *Management and Services Agreement*

In February 2000, TAT entered into an agreement with TAT Industries, TAT'S controlling shareholder, to purchase operations of TAT Industries relating to the manufacture of aviation accessories and the lease of certain real estate and buildings. Pursuant to the terms of this agreement, all of the employees of TAT Industries were transferred to TAT us effective January 1, 2000, without any change in the conditions of their employment. TAT Industries pays TAT \$50,000 per year for administrative and accounting personnel and secretarial staff, who served as employees of TAT Industries before they were transferred to TAT and who continue to provide such services.

In addition, pursuant to the terms of the agreement, TAT entered into a lease agreement, pursuant to which TAT leased from TAT Industries, effective as of January 1, 2000, an area of approximately 344,000 square feet, including 90,000 square feet of manufacturing, office and storage space, for a period of 24 years and eleven months. In consideration for the lease agreement, TAT agreed to pay TAT Industries annual rental fee of \$300,000, with an additional incremental payment of 2% per year, such rental fee is subject to revaluation every fifth year. In 2005, the rental fee was revaluated by a real estate appraiser, and as a result the base fee was increased to \$310,000 per year with an additional incremental payment of 2% per year. The rental fee will be revaluated in 2010.

### *Management Agreement with ISAL*

On February 8, 2009, following the approval of TAT's Board of Directors and audit committee, TAT's shareholders approved the entry by the company into a management agreement with TAT's controlling shareholder, Isal Amlat, by the special majority required by Israeli law. Pursuant to the management agreement, in consideration of the management services provided by Isal Amlat, TAT will pay to Isal Amlat an amount of \$100,000 plus VAT per fiscal quarter, commencing retroactively from October 1, 2008. The agreement will be in effect for 4 years unless earlier terminated by either party by a 4 month prior notice. Under the agreement, the scope of services are subject to annual review by the Board of Directors and audit committee and upon their determination that a material change has occurred that requires the update of the agreement, the company will take all actions to obtain all the requisite approvals to such amendment.

#### *Other Transactions*

TAT has commercial relationships in the ordinary course of business, with certain companies that are controlled by KMN Holdings, TAT's indirect controlling shareholder: KMN Trades and Metals, Ika Laboratories Ltd., Alexandrovitzh Ltd. and Hagail Industries Ltd. During fiscal year 2009, TAT purchased from such companies raw materials and services in an aggregate amount of \$790, all in arms length transactions. The total volume of these transactions is considered as immaterial and did not exceed 1% of the Company's over whole operations.

#### *Other Relationships*

Dr. Shmuel Fledel, TAT's Chief Executive Officer and Mr. Yaron Shalem, TAT's Chief Financial Officer, also serve in the same positions in TAT Industries.

Dr. Avraham Ortel, the Chief Executive Officer of Limco also serves as the Chief Executive Officer of KMN Capital Limited, a subsidiary of KMN Holdings Ltd.

Dr. Shmuel Fledel, TAT's Chief Executive Officer and Dr. Avraham Ortel, the Chief Executive Officer of Limco, also serve as directors of FAvS.

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

Not applicable.

#### **Item 8. Financial Information**

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

See the consolidated financial statements, including the notes thereto, included in Item 18.

## Legal Proceedings

We are not presently involved in any material legal proceedings. However during the ordinary course of business, we are, from time to time, threatened with, or may become a party to legal actions and other proceedings.

## Dividend Distribution Policy

The Israel Companies Law also restricts our ability to declare dividends. We can only distribute dividends from profits (as defined in the law), provided that there is no reasonable suspicion that the dividend distribution will prevent us from meeting our existing and future expected obligations as they come due.

## B. Significant Changes

Since the date of the annual consolidated financial statements included in this annual report, no significant change has occurred.

## Item 9. The Offer and Listing

### A. Offer and Listing Details

#### Annual Stock Information

The following table sets forth, for each of the years indicated, the high and low sales prices of our ordinary shares on the NASDAQ Capital Market and the TASE:

	NASDAQ Capital Market <sup>(1)</sup>		Tel Aviv Stock Exchange	
	High	Low	High	Low
Fiscal Year Ended December 31, 2004	9.80	6.21	—	—
Fiscal Year Ended December 31, 2005	9.35	5.25	NIS 35.50	NIS 29.70
Fiscal Year Ended December 31, 2006	19.52	5.92	82.10	30.25
Fiscal Year Ended December 31, 2007	28.18	11.37	116.70	47.68
Fiscal Year Ended December 31, 2008	12.24	3.62	53.00	15.52
Fiscal Year Ended December 31, 2009	9.13	3.95	33.90	16.53

(1) On June 24, 2009 TAT's ordinary shares began trading on the NASDAQ Global Market.

## Quarterly Stock Information

The following table sets forth, for each of the full financial quarters in the two most recent full financial years and any subsequent period, the high and low sales prices of our ordinary shares on the NASDAQ Capital Market and the TASE:

	NASDAQ Capital Market <sup>(1)</sup>		Tel Aviv Stock Exchange	
	High	Low	High	Low
<b>2008</b>				
First Quarter	12.24	6.61	NIS 53.00	NIS 26.01
Second Quarter	8.60	4.95	34.94	17.71
Third Quarter	7.37	4.76	27.75	17.08
Fourth Quarter	7.01	3.62	27.50	15.52
<b>2009</b>				
First Quarter	5.85	3.95	NIS 25.31	NIS 16.53
Second Quarter	7.64	4.74	30.98	20.97
Third Quarter	7.94	5.55	30.79	22.32
Fourth Quarter	9.13	7.32	33.90	28.15
<b>2010</b>				
First Quarter	9.94	7.82	NIS 37.36	NIS 29.71

(1) On June 24, 2009 TAT's ordinary shares began trading on the NASDAQ Global Market.

**Monthly Stock Information**

The following table sets forth, for the most recent six months, the high and low sales prices of our ordinary shares on the NASDAQ Global Market and the TASE:

	NASDAQ Global Market		Tel Aviv Stock Exchange	
	High	Low	High	Low
December 2009	8.95	8.32	NIS 33.9	NIS 32.0
January 2010	9.46	8.41	33.98	31.95
February 2010	9.94	8.35	36.9	31.75
March 2010	9.92	7.82	37.36	29.71
April 2010	8.19	7.50	30.54	28.49
May 2010	7.15	5.50	28.96	23.15

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our ordinary shares are traded on the NASDAQ Global Market under the symbol “TATT”. On August 16, 2005, we listed our shares for trade on the TASE as a dual listed company.

**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**

Set out below is a description of certain provisions of our Memorandum of Association, Articles of Association and of the Israeli Companies Law related to such provisions. This description is only a summary and does not purport to be complete and is qualified by reference to the full text of the Memorandum of Association and Articles of Association, which are incorporated by reference as exhibits to this Annual Report, and to Israeli law.

**Purposes and Objects of the Company**

We are a public company registered with the Israeli Companies Registry and have been assigned company number 52-0035791. 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.

On February 1, 2000, the Israeli Companies Law came into effect and superseded most of the provisions of the Israeli Companies Ordinance (New Version), 5743-1983, except for certain provisions which relate to liens, bankruptcy, dissolution and liquidation of companies. Under the Israeli Companies Law, various provisions, some of which are detailed below, overrule the current provisions of our articles of association.

**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. See Item 6.C. "Directors, Senior Management and Employees – Board Practices – Approval of Related Party Transactions Under Israeli Law."

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.

Our articles of association do not impose any mandatory retirement or age-limit requirements on our directors and our directors are not required to own shares in our company in order to qualify to serve as directors.

#### **Rights Attached to Shares**

Our authorized share capital consists of 10,000,000 ordinary shares of a nominal value of NIS 0.90 each. All outstanding ordinary shares are validly issued, fully paid and non-assessable.

The rights attached to the ordinary shares are as follows:

**Dividend rights.** Holders of our ordinary shares are entitled to the full amount of any cash or share dividend subsequently declared. The board of directors may declare interim dividends and propose the final dividend with respect to any fiscal year only out of the retained earnings, in accordance with the provisions of the Israeli Companies Law. See Item 8.A. “Financial Information – Consolidated and Other Financial Information – Dividend Distribution Policy.” If after one year a dividend has been declared and it is still unclaimed, the board of directors is entitled to invest or utilize the unclaimed amount of dividend in any manner to our benefit until it is claimed. We are not obligated to pay interest or linkage differentials on an unclaimed dividend.

**Voting rights.** Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

The quorum required for any 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 one third of the voting rights of the issued share capital. A meeting adjourned for lack of a quorum generally 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. At the reconvened meeting, the required quorum consists of any two members present in person or by proxy.

Under our Articles of Association, any resolution, including resolutions for the declaration of dividends, amending our memorandum of association or articles of association, approving any change in capitalization, winding-up, authorization of a class of shares with special rights, or other changes as specified in our Articles of Association, requires approval of the holders of a majority of the voting rights represented at the meeting, in person, by proxy or by written ballot, and voting thereon.

Pursuant to our articles of association, our directors (other than outside directors) are elected at our annual general meeting of shareholders by a vote of the holders of a majority of the voting power represented and voting at such meeting and hold office until the next annual general meeting of shareholders and until their successors have been elected. All the members of our Board of Directors (except the outside directors) may be reelected upon completion of their term of office. For information regarding the election of outside directors, see “Item 6C. Directors, Senior Management and Employees – Board Practices — Election of Directors.”

***Rights to share in our company’s profits.*** Our shareholders have the right to share in our profits distributed as a dividend and any other permitted distribution. See this Item 10B. “Additional Information – Memorandum and Articles of Association – Rights Attached to Shares – Dividend rights.”

***Rights to share in surplus in the event of liquidation.*** In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to the nominal value of their holdings. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

***Liability to capital calls by our company.*** Under our memorandum of association and the Israeli Companies Law, the liability of our shareholders is limited to the par value of the shares held by them.

***Limitations on any existing or prospective major shareholder.*** See Item 6.C. “Directors and Senior Management –Board Practices - Approval of Related Party Transactions Under Israeli Law.”

#### **Changing Rights Attached to Shares**

According to our Articles of Association, in order to change the rights attached to any class of shares, unless otherwise provided by the terms of the class, such change must be adopted by a general meeting of the shareholders and by a separate general meeting of the holders of the affected class with a majority of the voting rights represented at the meeting, in person, by proxy or by written ballot, and voting thereon.

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

Under the Israeli Companies Law a company must convene an annual meeting of shareholders at least once every calendar year and within fifteen 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 “special general meetings.” With respect to “special general meetings notice of at least 35 days prior to the date of the meeting is required. In addition, the board must convene a special 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. See Item 10B. “Additional Information - Memorandum and Articles of Association - Rights Attached to Shares - Voting Rights.”

#### **Limitations on the Rights to Own Securities in Our Company**

Neither our memorandum of association or our articles of association nor the laws of the State of Israel restrict in any way the ownership or voting of shares by non-residents, except with respect to subjects of countries which are in a state of war with Israel.

#### **Provisions Restricting Change in Control of Our Company**

The Israeli Companies Law requires that mergers between Israeli companies be approved by the board of directors and general meeting of shareholders of both parties to the transaction. The approval of the board of directors of both companies is subject to such boards’ confirmations that there is no reasonable doubt that after the merger the surviving company will be able to fulfill its obligations towards its creditors. Each company must notify its creditors about the contemplated merger. Under the Israeli Companies Law, our Articles of Association are deemed to include a requirement that such merger be approved by an extraordinary resolution of the shareholders, as explained above. The approval of the merger by the general meetings of shareholders of the companies is also subject to additional approval requirements as specified in the Israeli Companies Law and regulations promulgated there under. See also Item 6.C. “Directors, Senior Management and Employees – Board Practices – Approval of Related Party Transactions Under Israeli Law.”

## **Disclosure of Shareholders Ownership**

The Israeli Securities Law, 5728-1968 and regulations promulgated there under contain various provisions regarding the ownership threshold above which shareholders must disclose their share ownership. However, these provisions do not apply to companies, such as ours, whose shares are publicly traded in Israel as well on the NASDAQ Capital Market. We are required pursuant to the Israeli Securities Law and the regulations promulgated thereunder to submit to the Israeli Companies Registrar, the Israeli Securities Authority and the TASE, among other things, all information that we receive from our shareholders regarding their shareholdings in our company, provided that such information was published or is required to be published under applicable foreign law.

## **Changes in Our Capital**

Changes in our capital are subject to the approval of the shareholders at a general meeting by a majority of the voting rights represented at the meeting, in person, by proxy or by written ballot, and voting thereon.

There are no restrictions on the rights of nonresident or foreign shareholders to hold or vote the Ordinary Shares.

## **C. Material Contracts**

On August 18, 2008, following a series of transactions explained below, TAT acquired 70% control in Bental:

On March 27, 2008, TAT entered into an agreement with Bental Investments Cooperative Agricultural Society Ltd., ("Bental Investments"), to purchase from it 27% of the outstanding shares of Bental, together with a call and put option for another 18% of the outstanding shares of Bental held by Bental Investments. The call option was for a period of four years commencing January 1, 2009 for an exercise price \$2,250,000, and the put option was for a period of two years commencing January 1, 2011 for \$2,138,000 (both subject to certain exchange rate adjustments). The exercise prices carried interest of 2% per annum.

On April 15, 2008, TAT entered into an agreement to purchase an additional 10% of the outstanding shares of Bental from Mivtach Shamir Investments (1993) Ltd., ("Mivtach"), subject to the completion of the acquisition from Bental Investment.

The foregoing transactions with Bental Investments and Mivtach were consummated on May 21, 2008, as a result of which TAT paid in cash a total of \$5,144,000.

On August 18, 2008, following the approval of the shareholders meeting of TAT Industries (our parent company), TAT acquired an additional 15% shareholding in Bental from TAT Industries for a cash consideration of \$1,893,000.

On March 30, 2009, the call option mentioned above was exercised for \$2.34 million.

The acquisition of Bental shares was financed by loans in a total amount of \$6.25 million received from Bank Mizrahi and TAT's internal resources.

The agreement with Bental Investment provides for the payment of additional consideration by TAT, in the event that during the three year period following the closing of the transaction TAT consummates an "exit," as such term is defined in the agreement. The consideration for the shares and call option shares (if purchased) is equal to a certain percentage of the difference between the price per share that TAT paid for such shares and the price per share paid in the exit transaction (30% if the exit is within one year of the closing, 20% if the exit is within two years of the closing and 10% if the exit is within three years of the closing).

On April 3, 2009 we entered into an Agreement and Plan of Merger with Limco and LIMC Acquisition Company, a Delaware corporation and our wholly-owned subsidiary, pursuant to which we acquired on July 2, 2009, all of the publicly held shares of common stock of Limco pursuant to a stock for stock merger. Under the terms of the merger agreement, Limco's stockholders received one half of an ordinary share of TAT for each share of Limco common stock they own. Following the merger, Limco became our wholly owned subsidiary.

On July 3, 2009, Limco signed an agreement settling a commercial dispute with one of its suppliers. According to the agreement signed between the parties, Limco will serve as the supplier's licensed service center for performing repairs, renovation and servicing of aircraft components for a period of five years ending on May 31, 2014, in return for \$3,600. Prior to signing the agreement, Limco engagement with said supplier was based on older agreements which were to end on May 31, 2011 and July 31, 2010. Following an outside valuation, Limco carried an amount of approximately \$1,550 as an expense for settling the dispute and the balance was carried as an intangible asset in the TAT's books and is amortized over the remaining contractual period.

Pursuant to a Stock Purchase Agreement dated November 9, 2009 with FAvS, Piedmont acquired on December 4, 2009 5,766,667 newly issued shares of Class B Common Stock of FAvS representing 37% of the common equity of FAvS and \$750,000 of newly issued shares of Class A Preferred Stock of FAvS (with quarterly dividends at the rate of 12% per annum if paid in cash and 15% per annum if paid in additional shares of Series A Preferred Stock) in exchange for Piedmont's wholly-owned subsidiary, Piedmont Propulsion Systems, which was engaged in the business of providing maintenance, repair and overhaul services for propellers for fixed wing aircraft as well as aircraft parts distribution and trading.

The shares of FAvS Class B Common Stock acquired by Piedmont are non-voting. While Piedmont will have the option, at any time, to convert such shares into shares of Class A Common Stock of FAvS (which have full voting rights), Piedmont has granted to First Equity Group, Inc. ("**FEG**"), a proxy to act for Piedmont in connection with all votes to be taken by the stockholders of FAvS. Mr. Aaron Hollander, who is the Chief Executive Officer of FAvS, controls FAvS through his ownership of FEG. The proxy is for a period of five years (subject to earlier termination upon the occurrence of certain events (including an IPO meeting certain criteria, a material default by FAvS under its loan agreement or Mr. Hollander ceasing to serve as Chief Executive Officer of FAvS). In addition, Piedmont and FEG have each agreed not to sell any shares of stock of FAvS for a two-year period commencing on the third anniversary of the closing unless the selling party obtains from the purchaser a proxy (terminating on the fifth anniversary of the closing) in favor of the non-selling party.

Mr. Hollander, FEG, and Piedmont also entered into a stockholders agreement which, among other things, restricts each party's ability to dispose of its shares in FAvS and provides for reciprocal rights of first offer, tag along rights and drag along rights. The stockholders agreement also provides that, so long as Piedmont owns at least 10% of the equity of FAvS, it shall have the right to have two designees serve on the six-member Board of Directors of FAvS. Piedmont and FAvS have additionally entered into a rights agreement pursuant to which, among other things, FAvS granted to Piedmont pre-emptive rights, information and access rights and the right to approve certain material corporate actions.

Piedmont agreed to guaranty \$7 million of the debt incurred by FAvS in connection with the KATR acquisition by providing a letter of credit to the lender for FAvS. The guaranty is for a period of up to two years and reduces as such debt amortizes. Piedmont was granted a second lien on the assets of FAvS to secure the repayment obligations of FAvS in the event the letter of credit is drawn upon. Piedmont also entered into an intercreditor agreement with the lender to FAvS which will subordinate Piedmont's claims if the letter of credit is drawn upon to the obligations of FAvS to the lender.

FAvS and Piedmont also entered into a one-year services agreement pursuant to which Piedmont provides certain finance, human resources, IT and quality control services to FAvS and a multi-year services agreement pursuant to which a subsidiary of Piedmont provides certain plating, machining and grinding services to FAvS.

**D. Exchange Controls**

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. In May 1998, a new "general permit" was issued under the Israeli Currency Control Law, 1978, which removed most of the restrictions that previously existed under such law, and enabled Israeli citizens to freely invest outside of Israel and freely convert Israeli currency into non-Israeli currencies.

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 repatriable 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 has been obtained.



## **E. Taxation**

The following is a discussion of Israeli and United States tax consequences material to our shareholders. To the extent that the discussion is based on new 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 advisor as to the Israeli, United States and other tax consequences of the purchase, ownership and disposition of our ordinary shares, including, in particular, the effect of any non-Israeli, state or local taxes.

### **ISRAELI TAX CONSIDERATIONS**

The following is a summary of the principal Israeli tax laws applicable to us, of the Israeli Government programs from which we benefit and of the Income Tax Law (Inflationary Adjustments), 1985. This section also contains a discussion of material Israeli tax consequences to our shareholders who are not residents or citizens of Israel. This summary does not discuss all 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 investors subject to special treatment under Israeli law include residents of Israel, traders in securities, or persons who own, directly or indirectly, 10% or more of our outstanding voting capital, all of whom are subject to special tax regimes not covered in this discussion. Some parts of this discussion are based on new tax legislation that has not been subject to judicial or administrative interpretation. The discussion should not be construed as legal or professional tax advice and does not cover all possible tax consequences.

### **General Corporate Tax Structure**

Israeli companies were generally subject to corporate tax at the rate of 29% in 2007, which was reduced to 27% in 2008, and to 26% in 2009 and will be gradually further reduced to 18% in 2016 and thereafter. However, the rate is effectively reduced for income derived from an approved enterprise and beneficiary enterprise, as discussed below.

#### **Tax Benefits under the Law for the Encouragement of Capital Investments, 1959**

We have one capital investment program that has been granted “approved enterprise” status under the Law for the Encouragement of Capital Investments, 1959, commonly referred to as the Investment Law, and one program that qualify as a “beneficiary enterprise” pursuant to an amendment to the Investment Law that came into effect on April 1, 2005.

Prior to the April 2005 amendment, the Investment Law provided that capital investments in a production facility (or other eligible assets) may be designated as an approved enterprise upon prior approval from the Investment Center of the Israel Ministry of Industry, Trade and Labor, or the Investment Center. 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.

On April 1, 2005, an amendment to the Investment Law came into effect, which revised the criteria for investments qualified to receive tax benefits. An eligible investment program under the amendment will qualify for benefits as a beneficiary enterprise (rather than the previous terminology of approved enterprise). Among other things, the April 2005 amendment provides tax benefits to both local and foreign investors. Companies that meet the specified criteria will receive the tax benefits without need for prior approval and instead, a company may claim the tax benefits offered by the Investment Law directly in its tax returns.

The period of tax benefits for a new beneficiary enterprise commences in the year that is the later of: (i) the year in which taxable income is first generated by a company, or (ii) a year selected by the company for commencement, on the condition that the company meets certain provisions provided by the Investment Law. The amendment does not apply to investment programs approved prior to December 31, 2004 and applies only to new investment programs. We began to generate income under the provision of the new amendment as of the beginning of 2006.

A company that owns an approved enterprise and/or beneficiary enterprise is eligible for governmental grants, but may elect to receive an alternative package comprised of tax benefits, referred to as the “alternative track.” Under the alternative track, a company’s undistributed income derived from an approved enterprise and beneficiary enterprise is exempt from corporate tax for an initial period (two to ten years, depending on the geographic location of the approved enterprise and beneficiary enterprise within Israel). The exemption begins in the first year that the company realizes taxable income from the approved enterprise.

After expiration of the initial tax exemption period, the company is eligible for a reduced corporate tax rate of 10% to 25% for the following five to eight years, depending on the extent of foreign investment in the company (as shown in the table below). The benefits period is limited to 12 years from completion of the investment under the approved plan or 14 years from the date of the approval, whichever is earlier. A company in which more than 25% of the shareholders are non-residents of Israel, defined under the Investment Law as a Foreign Investors Company, may be eligible for benefits for an extended period of up to ten years.

The tax benefits relate only to taxable income attributable to the specific approved enterprise and/or beneficiary enterprise. To the extent we have more than one approved enterprise and/or beneficiary enterprise or only a portion of our capital investments are derived from approved or beneficiary enterprises, our effective tax rate will be the result of a weighted combination of the applicable rates.

<b>Percent of Foreign Ownership</b>	<b>Rate of Reduced Tax</b>	<b>Reduced Tax Period</b>	<b>Tax Exemption Period</b>
0-25%	25%	5 years	2 years
25-49%	25%	8 years	2 years
49-74%	20%	8 years	2 years
74-90%	15%	8 years	2 years
90-100%	10%	8 years	2 years

If a company distributes dividends from tax-exempt approved enterprise and/or beneficiary enterprise income, the company will be taxed on the otherwise exempt income at the same reduced corporate tax rate that applies to it after the initial exemption period. Distribution of dividends derived from approved enterprise and beneficiary enterprise income that was taxed at reduced rates, but not tax exempt, does not result in additional tax consequences to the company. Shareholders who receive dividends derived from approved enterprise and beneficiary enterprise income are generally taxed at a rate of 15%, which is withheld and paid by the company paying the dividend, if the dividend is distributed during the benefits period or within the following 12 years (but the 12-year limitation does not apply to a Foreign Investors Company).

The benefits available to an approved enterprise and beneficiary enterprise are conditioned upon terms stipulated in the Investment Law and the related regulations (which include making specified investments in property and equipment, and financing a percentage of these investments with share capital), and, for an approved enterprise, the conditions contained in the certificate of approval from the Investment Center. If we do not fulfill these conditions, in whole or in part, the benefits can be cancelled and we may be required to refund the amount of the benefits, linked to the Israeli consumer price index plus interest. We believe that our approved enterprise and beneficiary enterprise programs currently operate in compliance with all applicable conditions and criteria, but we cannot assure you that they will continue to do so.

We have derived, and expect to continue to derive, a substantial portion of our operating income from our approved enterprise and beneficiary enterprise facilities. We are therefore eligible for a tax exemption for a limited period on undistributed approved enterprise and beneficiary enterprise income, and an additional subsequent period of reduced corporate tax rates ranging between 10% and 25%, depending on the level of foreign ownership of our shares. The tax benefits attributable to our current approved enterprise and beneficiary enterprise are scheduled to expire in phases between 2009 and 2017. We intend to reinvest the entire amount of our tax-exempt income and not to distribute this income as a dividend.

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

Israeli tax law allows, under specific conditions, a tax deduction in the year incurred for expenditures, including capital expenditures, relating to scientific research and development projects, if the expenditures are approved by the relevant Israeli government ministry, determined by the field of research, and the research and development is for the promotion of the company and is carried out by or on behalf of the company seeking such deduction. Expenditures not so approved are deductible over a three-year period. However, expenditures from proceeds made available to us through government grants are not deductible according to Israeli law.

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

According to the Law for the Encouragement of Industry (Taxes), 1969, or the Industry Encouragement Law, an Industrial Company is a company resident in Israel, at least 90% of the income of which, in a given tax year, determined in Israeli currency (exclusive of income from some government loans, capital gains, interest and dividends), is derived from an industrial enterprise owned by it. An "industrial enterprise" is defined as an enterprise whose major activity in a given tax year is industrial production activity.

Under the Industry Encouragement Law, Industrial Companies are entitled to the following preferred corporate tax benefits:

- Amortization of purchases of acquired technology and patents over an eight-year period for tax purposes;
- Amortization of specified expenses incurred in connection with a public issuance of securities over a three-year period for tax purposes;
- Right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli Industrial Companies; and
- Accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

We cannot assure you that we will continue to qualify as an Industrial Company or that the benefits described above will be available to us in the future.

#### **Special Provisions Relating to Taxation under Inflationary Conditions**

The Income Tax Law (Inflationary Adjustments), 1985, referred to as the Inflationary Adjustments Law, which attempts to overcome the problems presented to a traditional tax system by an economy undergoing rapid inflation. The Inflationary Adjustments Law is highly complex.

On February 26, 2008, the Israeli Parliament (the Knesset) enacted the Income Tax Law (Inflationary Adjustments) (Amendment No. 20) (Restriction of Effective Period), 2008, which we refer to as the Inflationary Adjustments Amendment. In accordance with the Inflationary Adjustments Amendment, the effective period of the Inflationary Adjustments Law will cease at the end of the 2007 tax year and as of the 2008 tax year the provisions of the law shall no longer apply, other than the transitional provisions intended at preventing distortions in the tax calculations. In accordance with the Inflationary Adjustments Amendment, commencing the 2008 tax year, income for tax purposes will no longer be adjusted to a real (net of inflation) measurement basis. Furthermore, the depreciation of inflation immune assets and carried forward tax losses will no longer be linked to the Israeli consumer price index.

#### **Taxation of Dividends Paid on our Ordinary Shares**

##### *Taxation of Israeli Shareholders*

Israeli resident individuals are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, other than bonus shares (share dividends) or stock dividends, at the rate of 20%, or 25% for a shareholder that is considered a material shareholder (within the meaning of the Israeli Income Tax Ordinance) at any time during the 12-month period preceding such distribution. Dividends paid on our ordinary shares to Israeli companies are exempt from such tax, except for dividends distributed from income derived outside of Israel, which are subject to the 25% tax rate.

Dividends paid from income derived from any of our approved enterprises or beneficiary enterprises are subject to tax, which is withheld at the source, at the rate of 15%, although we cannot assure you that we will designate the profits that are being distributed in a way that will reduce shareholders' tax liability to this tax rate.

##### *Taxation of Non-Israeli Shareholders*

Non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, at the rates applicable to Israeli residents, which tax will be withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence.

Under the U.S.-Israel Treaty, the maximum Israeli withholding tax on dividends paid by us is 25%. Dividends of an Israeli company distributed from income of an approved enterprise or beneficiary enterprise are subject to a 15% withholding tax under Israeli law. The U.S.-Israel Tax Treaty further provides for a 12.5% Israeli dividend withholding tax on dividends paid by an Israeli company to a U.S. corporation owning at least 10% or more of such Israeli company's issued voting power for, in general, the part of the tax year which precedes the date of payment of the dividend and the entire preceding tax year, provided such U.S. corporation meets certain limitations concerning the amount of its dividend and interest income. The lower 12.5% rate applies only to dividends from income not derived from an approved enterprise or beneficiary enterprise in the applicable period and does not apply if the company has more than 25% of its gross income derived from certain types of passive income. Residents of the United States generally will have withholding tax in Israel deducted at source. They may be entitled to a credit or deduction for U.S. federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in U.S. tax legislation.

#### **Capital gains taxes applicable to non-Israeli shareholders**

Capital gains from the sale of our ordinary shares by non-Israeli shareholders are exempt from Israeli taxation, provided that the capital gain is not derived from a permanent establishment in Israel. In addition, the U.S.-Israel tax treaty exempts U.S. residents who hold less than 10% of our voting rights, and who held less than 10% of our voting rights during the 12 months prior to a sale of their shares, from Israeli capital gains tax in connection with such sale.

#### **UNITED STATES FEDERAL INCOME TAX CONSEQUENCES**

*The following discussion summarizes the material U.S. federal income tax considerations generally applicable to the purchase, ownership and disposition of our ordinary shares. Unless otherwise stated, this summary deals only with shareholders that are U.S. Holders (as defined below) who hold their ordinary shares as capital assets.*

As used in this section, the term “U.S. Holder” means a beneficial owner of an ordinary share who is:

- An individual citizen or resident of the United States or an individual treated as a U.S. citizen or resident for U.S. federal income tax purposes;
- A corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the United States, any State or the District of Columbia;
- An estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- Any trust if (A)(i) a court within the United States is able to exercise primary supervision over the administration of the trust and (ii) one or more United States persons have the authority to control all substantial decisions of the trust, or (B) such trust validly elects to be treated as a United States person.

The term “Non-U.S. Holder” means a beneficial owner of an ordinary share that is an individual, corporation, estate or trust and is not a U.S. Holder. The tax consequences to a Non-U.S. Holder may differ substantially from the tax consequences to a U.S. Holder. Certain aspects of U.S. federal income tax relevant to a Non-U.S. Holder are discussed below.

This description is based on provisions of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), existing and proposed U.S. Treasury regulations promulgated thereunder, administrative and judicial interpretations thereof, and the US-Israel Tax Treaty, each as in effect as of the date of this prospectus. These sources may change, possibly with retroactive effect, and are open to differing interpretations. This description does not discuss all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances or to investors who are subject to special treatment under U.S. federal income tax law, including:

- Insurance companies;
- Dealers in stocks, securities or currencies;
- Financial institutions and financial services entities;
- Real estate investment trusts;
- Regulated investment companies;



- Persons that receive ordinary shares in connection with the performance of services;
- Tax-exempt organizations;
- Persons that hold ordinary shares as part of a straddle or appreciated financial position or as part of a hedging, conversion or other integrated instrument;
- Persons who hold the ordinary shares through partnerships or other pass-through entities;
- Individual retirement and other tax-deferred accounts;
- Expatriates of the United States and certain former long-term residents of the United States;
- Persons liable for the alternative minimum tax;
- Persons having a “functional currency” other than the U.S. dollar; and
- Direct, indirect or constructive owners of 10% or more, by voting power or value, of our company.

If a partnership or an entity treated as a partnership for U.S. federal income tax purposes owns 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 ordinary shares and the partners in such partnership should consult their tax own advisors about the U.S. federal income tax consequences of holding and disposing of ordinary shares.

This discussion does not consider the possible application of U.S. federal gift or estate tax or alternative minimum tax.

All investors are urged to consult their own tax advisors as to the particular tax consequences to them of an investment in our ordinary shares, including the effect and applicability of United States federal, state, local and foreign income and other tax laws (including estate and gift tax laws) and tax treaties.

#### **Distributions Paid on the Ordinary Shares**

Subject to the discussion below under “Passive Foreign Investment Company Considerations,” a U.S. Holder generally will be required to include in his or her gross income as ordinary dividend income the amount of any distributions paid on the ordinary shares, including the amount of any Israeli taxes withheld, to the extent that those distributions are paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Subject to the discussion below under “Passive Foreign Investment Company Considerations,” distributions in excess of our earnings and profits will be applied against and will reduce the U.S. Holder’s tax basis in its ordinary shares and, to the extent they exceed that tax basis, will be treated as gain from a sale or exchange of those ordinary shares. Our dividends will not qualify for the dividends-received deduction applicable in some cases to U.S. corporations.

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 will have a foreign currency exchange gain or loss that would be treated as 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 certain limitations, "qualified dividend income" received by a noncorporate U.S. Holder in tax years beginning on or before December 31, 2010 will be subject to tax at a reduced maximum tax rate of 15%. Distributions taxable as dividends paid on the ordinary shares should qualify for the 15% rate provided that we are not a passive foreign investment company (as described below) for U.S. tax purposes and that either: (i) we are entitled to benefits under the income tax treaty between the United States and Israel (the "U.S.-Israel Tax Treaty") or (ii) the 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 U.S.-Israel Tax Treaty and that the ordinary shares currently will be readily tradable on an established securities market in the United States. However, no assurance can be given that the ordinary shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied. With respect to the ordinary shares, the U.S. Holder must have held such shares for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date. The rate reduction also does not apply to dividends received from passive foreign investment companies, see discussion below, or in respect of certain hedged positions or in certain other situations. The legislation enacting the reduced tax rate contains special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to the reduced tax rate. U.S. Holders of ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

Subject to the discussion below under “Information Reporting and Back-up Withholding,” a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on dividends received on ordinary shares unless that income is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the United States, in which case a corporate Non-U.S. Holder may also be subject to the U.S. branch profits tax.

#### **Foreign Tax Credit**

Any dividend income resulting from distributions we pay to a U.S. Holder with respect to the ordinary shares generally will be treated as foreign source income for U.S. foreign tax credit limitation purposes. Subject to certain conditions and limitations, Israeli tax withheld on dividends may be deducted from taxable income or credited against a U.S. Holder’s U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, any dividend that we distribute generally will constitute “passive category income,” or, in the case of certain U.S. Holders, “general category income.” The rules relating to the determination of foreign source income and the foreign tax credit are complex, and the availability of a foreign tax credit depends on numerous factors. Each investor who is a U.S. Holder should consult with its own tax advisor to determine whether its income with respect to the ordinary shares would be foreign source income and whether and to what extent that investor would be entitled to a foreign tax credit.

#### **Disposition of Ordinary Shares**

Upon the sale or other disposition of ordinary shares, subject to the discussion below under “Passive Foreign Investment Company Considerations,” a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized on the disposition and the holder’s adjusted tax basis in the ordinary shares. U.S. Holders should consult their own advisors with respect to the tax consequences of the receipt of a currency other than U.S. dollars upon such sale or other disposition.

Gain or loss upon the disposition of the ordinary shares will be treated as long-term if, at the time of the sale or disposition, the ordinary shares were held for more than one year. The deductibility of capital losses by a U.S. Holder is subject to limitations. In general, any gain or loss recognized by a U.S. Holder on the sale or other disposition of ordinary shares will be U.S. source income or loss for U.S. foreign tax credit purposes. U.S. Holders should consult their own tax advisors concerning the source of income for U.S. foreign tax credit purposes and the effect of the U.S.-Israel Tax Treaty on the source of income.

Subject to the discussion below under “Information Reporting and Back-up Withholding,” a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of ordinary shares unless:

- that gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States, and, if a tax treaty applies, is attributable to a permanent establishment or fixed base of the Non-U.S. Holder in the United States; or
- in the case of any gain realized by an individual Non-U.S. Holder, that holder is present in the United States for 183 days or more in the taxable year of the sale or exchange, and other conditions are met.

#### **Passive Foreign Investment Company Considerations**

Special U.S. federal income tax rules apply to U.S. Holders owning shares of a passive foreign investment company. A non-U.S. corporation will be considered a passive foreign investment company for any taxable year in which, after applying certain look-through rules, 75% or more of its gross income consists of specified types of passive income, or 50% or more of the average value of its assets consists of assets that produce, or are held for the production of, passive income. For this purpose, passive income includes generally dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets which produce passive income.

If we were classified as a passive foreign investment company, a U.S. Holder could be subject to increased tax liability upon the sale or other disposition of ordinary shares or upon the receipt of amounts treated as “excess distributions.” Under these rules, the excess distribution and any gain would be allocated ratably over the U.S. Holder’s holding period for the ordinary shares, and the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we were a passive foreign investment company would be taxed as ordinary income. The amount allocated to each of the other taxable years would be subject to tax at the highest marginal tax rate in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed on the resulting tax allocated to such other taxable years. The tax liability with respect to the amount allocated to years prior to the year of the disposition, or “excess distribution,” cannot be offset by any net operating losses. In addition, holders of stock in a passive foreign investment company may not receive a “step-up” in basis on shares acquired from a decedent. If we are a passive foreign investment company in any year, a U.S. Holder would be required to file an annual return on IRS Form 8621 regarding distributions received with respect to ordinary shares and any gain realized on the disposition of ordinary shares.

Based on our current and projected income, assets and activities, we do not believe that we will be a passive foreign investment company for our current taxable year. However, because the determination of whether we are a passive foreign investment company is based upon the composition of our income and assets from time to time, we cannot be certain that we will not be considered a passive foreign investment company for the current taxable year or any future taxable year.

The passive foreign investment company tax consequences described above will not apply to a U.S. Holder if the U.S. Holder makes an election to treat us as a qualified electing fund, or QEF. If a U.S. Holder makes a timely QEF election, the U.S. Holder would be required to include in income for each taxable year its pro rata share of our ordinary earnings as ordinary income and its pro rata share of our net capital gain as long-term capital gain, whether or not such amounts are actually distributed to the U.S. Holder. However, a U.S. Holder would not be eligible to make a QEF election unless we comply with certain applicable information reporting requirements. We will provide U.S. Holders with the information needed to report income and gain under a QEF election should we become a passive foreign investment company.

As an alternative to making a QEF election, a U.S. Holder of passive foreign investment company stock which is publicly traded may in certain circumstances avoid certain of the tax consequences generally applicable to holders of a passive foreign investment company by electing to mark the stock to market annually and recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the passive foreign investment company stock and the U.S. Holder's adjusted tax basis in the passive foreign investment company stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of ordinary shares with respect to which the mark to market election is made, are generally treated as ordinary income or loss (except that loss is treated as capital loss to the extent the loss exceeds the net mark-to-market gains, if any, that a U.S. Holder included in its income with respect to such ordinary shares in prior years). However, gain or loss from the disposition of ordinary shares (as to which a "mark-to-market" election was made) in a year in which we are no longer a passive foreign investment company, will be capital gain or loss. The mark-to-market election is available for so long as our ordinary shares constitute "marketable stock," which includes stock of a passive foreign investment company that is "regularly traded" on a "qualified exchange or other market." Generally, a "qualified exchange or other market" includes a national securities exchange that is registered with the Securities and Exchange Commission or the national market system established pursuant to Section 11A of the Securities Exchange Act of 1934. A class of stock that is traded on one or more qualified exchanges or other markets is "regularly traded" on an exchange or market for any calendar year during which that class of stock is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. We believe that The NASDAQ Global Market will constitute a qualified exchange or other market for this purpose. However, we can not be certain that our ordinary shares will continue to trade on The NASDAQ Global Market or that the ordinary shares will be regularly traded for this purpose.

The rules applicable to owning shares of a passive foreign investment company are complex, and each holder who is a U.S. Holder should consult with its own tax advisor regarding the consequences of investing in a passive foreign investment company.

#### **Information Reporting and Backup Withholding**

Payments in respect of ordinary shares may be subject to information reporting to the U.S. Internal Revenue Service and to U.S. backup withholding tax at a rate equal to the fourth lowest income tax rate applicable to individuals (which, under current law, is 28%). Backup withholding will not apply, however, if you (i) are a corporation or come within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification. U.S. Holders who are required to establish their exempt status generally must provide such certification on IRS Form W-9.

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, and 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.

Any U.S. holder who holds 10% or more in vote or value of our ordinary shares will be subject to certain additional United States information reporting requirements.

**U.S. Gift and Estate Tax**

An individual U.S. Holder of ordinary shares will generally be subject to U.S. gift and estate taxes with respect to ordinary shares in the same manner and to the same extent as with respect to other types of personal property.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

We are subject to the reporting requirements of the United States Securities Exchange Act of 1934, as amended, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act, and in accordance therewith, we file annual and interim reports and other information with the Securities and Exchange Commission.

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 United States companies whose securities are registered under the Exchange Act. However, we make available on our website [www.tat-technologies.com](http://www.tat-technologies.com), our annual audited financial statements, which have been examined and reported on, with an opinion expressed by, an independent public accounting firm, and we intend to file reports with the Securities and Exchange Commission on Form 6-K containing unaudited financial information for the first three quarters of each fiscal year.

This annual report on Form 20-F and the exhibits thereto and any other document we file pursuant to the Exchange Act may be inspected without charge and copied at prescribed rates at the following Securities and Exchange Commission public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549; and on the Securities and Exchange Commission Internet site (<http://www.sec.gov>) and on our website [www.tat.co.il](http://www.tat.co.il). You may obtain information on the operation of the Securities and Exchange Commission's public reference room in Washington, D.C. by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Exchange Act file number for our Securities and Exchange Commission filings is 0-16050.

In addition, since August 16, 2005 we are also listed on the TASE. From such date we submit copies of all our filings with the SEC to the Israeli Securities Authority and TASE. Such copies can be retrieved electronically through the TASE internet messaging system ([www.maya.tase.co.il](http://www.maya.tase.co.il)) and, in addition, through the MAGNA distribution site of the Israeli Securities Authority ([www.magna.isa.gov.il](http://www.magna.isa.gov.il)).

The documents concerning our company which are referred to in this annual report may also be inspected at our offices located at Re'em Industrial Park Neta, Boulevard Bnei Ayish, Gedera, Israel.

**I. Subsidiary Information**

Not applicable.

**Item 11. Quantitative and Qualitative Disclosures about Market Risk**

We do not own and have not issued any market risk sensitive instruments about which disclosure is required to be provided pursuant to this Item.



#### **Effects of Changes in Interest Rates**

We pay interest on our long-term loans facilities in accordance with the nature of each loan. For loans that bear Libor Rate, we pay interest at a rate per annum equal to up to 1.85% in excess of the Libor Rate. For loans that linked to the Consumer Price Index (the “CPI”), we pay interest at rate per annum equal to up to 6.3% in excess of the CPI As a result, changes in the general level of interest rates directly affect the amount of interest payable by us under these facilities.

#### **Effects of Currency Exchange Fluctuations**

Our financial statements are stated in dollars, while a portion of our expenses, primarily labor expenses, is incurred in NIS and a part of our revenues are quoted in NIS. Additionally, certain assets, as well as a portion of our liabilities, are denominated in NIS. As a result, our operations may be affected by fluctuations of the U.S. dollar/NIS exchange rate. The NIS value of our U.S. dollar revenues are adversely affected by the appreciation of the NIS against the U.S. dollar. In 2009 and 2008, the NIS appreciated against the U.S. dollar by 0.4% and 1.1%, respectively. We estimate that a devaluation of 1% of the U.S. dollar against the NIS would result in a decrease of approximately \$100,000 in our operating income.

#### **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**

None.

#### **Item 15. Controls and Procedures**

Not applicable.

**Item 15T. Controls and Procedures**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our chief executive officer and chief financial officer to allow timely decisions regarding required disclosure. Our management, including our chief executive officer and chief financial officer, conducted an evaluation of our disclosure controls and procedures, as defined under Exchange Act Rule 13a-15(e), as of the end of the period covered by this Annual Report on Form 20-F. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of such date, our disclosure controls and procedures were effective.

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

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, 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 and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transaction and dispositions of the assets of the company;
- 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

- 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. 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.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, our management concluded that as of December 31, 2009, our internal control over financial reporting is effective.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial report. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

#### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**Item 16.** [Reserved]

**Item 16A.** Audit Committee Financial Expert

Our board of directors has determined that each member of our audit committee each of whom also qualifies as independent directors, meets the definition of an audit committee financial expert, as defined by rules of the Securities and Exchange Commission. For a brief listing of the relevant experience of the member of our audit committee, 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. The code of ethics is publicly available on our website at [www.tat-technologies.com](http://www.tat-technologies.com). Written copies 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****Fees Paid to Independent Public Accountant**

The following table sets forth, for each of the years indicated, the fees paid to our principal independent registered public accounting firm. All of such fees were pre-approved by our Audit Committee.

<b>Services Rendered</b>	<b>Year Ended December 31,</b>	
	<b>2009*</b>	<b>2008</b>
Audit (1)	\$ 428,545	\$ 327,866
Audit-related (2)	49,000	59,500
Tax (3)	22,000	4,300
Total	<u>\$ 499,545</u>	<u>\$ 391,666</u>

\* During year 2009 TAT changed its auditors from Baker Tilly Virchow Krause, LLP (formerly known as Virchow Krause & Company, LLP) an independent member of Baker Tilly International, to Kesselman & Kesselman, a member of PriceWaterhouseCoopers International Limited. Out of the amounts detailed in the table above, Baker Tilly Virchow Krause, LLP, was paid \$332,445 (\$313,445 for audit fees and \$19,000 for audit-related fees).

- (1) Audit fees are for audit services for each of the years shown in the table, including fees associated with the annual audit and reviews of our quarterly financial results, consultations on various accounting issues and audit services provided in connection with other statutory or regulatory filings.
- (2) Audit related fees relate to professional services rendered primarily for M&A transactions, due diligence services and the audit of the employee benefit plan of Limco.
- (3) Tax fees relate to professional services rendered for tax compliance and tax advice. These services include assistance regarding international and Israeli taxation.

## 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 public accounting firm Kesselman & Kesselman, a member of PriceWaterhouseCoopers International Ltd., 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. Any proposed services exceeding general pre-approved levels also require specific pre-approval by our audit committee. 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 SEC, 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 Committee

Not Applicable.

### Item 16E. Purchase of Equity Securities By The Issuer and Affiliated Purchasers

### Item 16F. Change in Registrant's Certifying Accountant.

On September 16, 2009, TAT's audit committee and Board of Directors decided to recommend the dismissal of its independent auditor, Baker Tilly Virchow Krause, LLP ("**BTVK**"). The report of BTVK on TAT's financial statements for 2007 and 2008 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. The decision to change accountants was also approved by TAT's shareholders meeting. . During the two fiscal years ended December 31, 2008 and 2007 and the subsequent interim periods preceding the replacement of BTVK, there were no disagreements with BTVK on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of BTVK, would have caused it to make reference to the subject matter of the disagreements in connection with its report.

Following the above mentioned decision to dismiss BTVK, TAT engaged Kesselman & Kesselman, a member of PriceWaterhouseCoopers International Limited as TAT's principal accountant to audit TAT's financial statements. During the two fiscal years ended December 31, 2008 and 2007 and the subsequent interim periods to the date of Kesselman & Kesselman's engagement, TAT did not consult with Kesselman & Kesselman regarding the application of accounting principles to a specific transaction, either proposed or completed, or the type of audit opinion that might be rendered on the TAT's financial statements, or any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

TAT provided Baker Tilly Virchow Krause, LLP with a copy of this disclosure on Form 20-F prior to its filing with the Securities and Exchange Commission ("SEC"). TAT has requested that Baker Tilly Virchow Krause, LLP furnish it with a letter addressed to the SEC stating whether or not it agrees with the statements in this Item 16.F. Baker Tilly Virchow Krause, LLP has furnished the Company with a letter dated June 28, 2010 addressed to the Securities and Exchange Commission stating that Baker Tilly Virchow Krause, LLP agrees with the Company's statements in this Form 20-F, and a copy of this letter is attached hereto as Exhibit 15.1.

**Item 16G. Corporate Governance**

The following are the significant ways in which our corporate governance practices differ from those followed by domestic companies under the Nasdaq Rules:

*Shareholder Approval.* Although the Nasdaq Rules generally require shareholder approval of equity compensation plans and material amendments thereto, we follow Israeli Companies Law, which is to have such plans and amendments approved only by the board of directors, unless such arrangements are for the compensation of directors or a transaction with the controlling shareholder, in which case they also require the approval of the audit committee and the shareholders.

In addition, rather than follow the Nasdaq Rules requiring shareholder approval for the issuance of securities in certain circumstances, we follow Israeli law, under which a private placement of securities requires approval by our board of directors and shareholders if it will cause a person to become a controlling shareholder (generally presumed at 25% ownership) or if:

- o The securities issued amount to 20% or more of our outstanding voting rights before the issuance;
- o Some or all of the consideration is other than cash or listed securities or the transaction is not on market terms; and
- o The transaction will increase the relative holdings of a shareholder that holds 5% or more of our outstanding share capital or voting rights or that it will cause any person to become, as a result of the issuance, a holder of more than 5% of our outstanding share capital or voting rights.

*Annual Reports.* While the Nasdaq Rules generally require that companies send an annual report to shareholders prior to the annual general meeting, we follow the generally accepted business practice for companies in Israel. Specifically, we file annual reports on Form 20-F, which contain financial statements audited by an independent accounting firm, electronically with the SEC and post a copy on our website.

**PART III**

**Item 17. Financial Statements**

We have elected to furnish financial statements and related information specified in Item 18.

**Item 18. Financial Statements**

**Consolidated Financial Statements**

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**Item 19. Exhibits**

The following exhibits are filed as a part of this Annual Report:

- 1.1 Memorandum of Association of the Registrant (1)
- 1.2 Articles of Association of the Registrant (1)
- 2.1 Specimen Certificate for Ordinary Shares (1)
- 4.1 Registrant's 1999 Stock Purchase Plan (2)
- 4.2 Agreement dated February 10, 2000, by and between the Registrant and TAT Industries Ltd. (English summary translation) (2)
- 4.3 English translation of Share Sales Agreement, dated March 27, 2008, by and between the Registrant and Bental Investments Cooperative Agricultures Society Ltd. (5)
- 4.4 English translation of Shareholders' Agreement, dated May 21, 2008, by and between the Registrant, Tat Industries Ltd. and Bental Investments Cooperative Agricultures Society Ltd. (5)
- 4.5 English translation of Amendment to the Share Sales and Options Agreement and the Shareholders' Agreement, dated May 21, 2008, by and between the Registrant, Tat Industries Ltd. and Bental Investments Cooperative Agricultures Society Ltd. (5)
- 4.6 English translation of Share Sales Agreement dated April 15, 2008, by and between the Registrant and Mivtach Shamir Investments (1993) Ltd. (5)
- 4.7 Agreement and Plan of Merger dated April 3, 2009 by and between the Registrant, Limco-Piedmont, Inc. and LIMC Acquisition Company (4)
- 8 List of Subsidiaries of the Registrant
- 12.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended

- 12.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
  - 13.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
  - 13.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
  - 15.1 A letter from Baker Tilly Virchow Krause LLP dated June 28, 2010 regarding Change in Registrant's Certifying Accountants
- 

- (1) Filed as an exhibit to the Registrant's Annual Report on Form 20-F for the year ended December 31, 1992, and incorporated herein by reference.
- (2) Incorporated by reference to the Registrant's Annual Report on Form 20-F for the year ended December 31, 1999, and incorporated herein by reference.
- (3) Incorporated by reference to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2006, and incorporated herein by reference.
- (4) Filed as an exhibit to the Registrant's Registration Statement on Form F-4 filed on May 7, 2009 and incorporated herein by reference.
- (5) Filed as an exhibit to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2007, and incorporated herein by reference.



TAT TECHNOLOGIES LTD  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2009

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TAT TECHNOLOGIES LTD  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2009  
IN U.S. DOLLARS  
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of  
Tat Technologies Ltd and Subsidiaries.

We have audited the consolidated balance sheets of Tat Technologies Ltd. (the "Company") and its subsidiaries as of December 31, 2009 and the related consolidated statement of income, changes in equity and of cash flows for the year ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits. The balance sheet as of December 31, 2008 and the related statements of income, changes in equity and cash flows for the years ended December 31, 2008 and 2007 were audited by other auditors whose report thereon, dated May 7, 2009 was unqualified.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2009 and the results of their operations and their cash flows for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(z) to the consolidated financial statements, in 2009 the Company changed the manner in which it accounts for non controlling interests in consolidated financial statements.

Tel-Aviv, Israel  
June 28, 2010

Kesselman & Kesselman  
Certified Public Accountants (Isr.)

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of:  
TAT Technologies Ltd. and Subsidiaries

We have audited the accompanying consolidated balance sheet of TAT Technologies Ltd. and Subsidiaries ("TAT") as of December 31, 2008, and the related consolidated statements of income, changes in equity and cash flows for each of the two years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of TAT's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. TAT is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TAT's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of TAT Technologies Ltd. and Subsidiaries as of December 31, 2008 and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Also as discussed in Note 2.z.1.(d) to the consolidated financial statements, TAT retrospectively changed the manner in which it accounts for noncontrolling interests in consolidated subsidiaries in 2009.

/s/ Baker Tilly Virchow Krause, LLP

(Formerly known as Virchow, Krause and Company, LLP  
an independent member of Baker Tilly International)

Minneapolis, Minnesota

May 7, 2009, except for Note 2.z.1.(d) as to which the date is June 28, 2010

## TAT TECHNOLOGIES LTD

## CONSOLIDATED STATEMENTS OF BALANCE SHEET

U.S dollars in thousands

	December 31,	
	2009	2008
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 25,568	\$ 33,899
Restricted deposit	5,062	1,000
Marketable securities	2,919	11,300
Trade accounts receivable	15,494	22,086
Other accounts receivable and prepaid expenses	7,387	5,162
TAT Industries Ltd.	27	383
Inventories	33,620	35,014
<b>Total current assets</b>	<b>90,077</b>	<b>108,844</b>
<b>INVESTMENT AND OTHER NON CURRENT ASSETS:</b>		
Investment in an associated company	8,899	-
Funds in respect of employee right upon retirement	2,597	3,705
Deferred income taxes	220	-
	11,716	3,705
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>14,463</b>	<b>15,187</b>
<b>INTANGIBLE ASSETS, NET</b>	<b>2,924</b>	<b>2,195</b>
Goodwill	5,311	5,999
<b>Total long-term assets</b>	<b>34,414</b>	<b>27,086</b>
<b>Total assets</b>	<b>\$ 124,491</b>	<b>\$ 135,930</b>

## TAT TECHNOLOGIES LTD

## CONSOLIDATED STATEMENTS OF BALANCE SHEET

U.S dollars in thousands

	December 31,	
	2009	2008
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short term bank credit and current maturities of long-term loans	\$ 1,434	\$ 150
Trade accounts payable	5,785	10,718
Other accounts payable and accrued expenses	6,110	7,360
<b>Total current liabilities</b>	<b>13,329</b>	<b>18,228</b>
<b>NON CURRENT LIABILITIES:</b>		
Liability for put option granted to non controlling interest	-	2,183
Long-term loans, net of current maturities	7,363	5,188
Liability in respect of employee rights upon retirement	3,157	4,468
Deferred income taxes	3,036	1,086
<b>Total long-term liabilities</b>	<b>13,556</b>	<b>12,925</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>		
<b>EQUITY:</b>		
TAT Technologies shareholders' equity		
Ordinary shares of NIS 0.9 par value - Authorized: 10,000,000 shares at December 31, 2009 and 2008; Issued and outstanding: shares 8,815,003 and 6,552,671 shares at December 31, 2009 and 2008, respectively	2,790	2,204
Treasury shares- December 31, 2009 - 258,040 shares	(2,018)	-
Additional paid-in capital	64,390	39,476
Accumulated other comprehensive loss	(944)	(763)
Retained earnings	30,648	35,160
<b>Total TAT Technologies shareholders' equity</b>	<b>94,866</b>	<b>76,077</b>
Non controlling interest	2,740	*28,700
<b>Total equity</b>	<b>97,606</b>	<b>104,777</b>
<b>Total liabilities and equity</b>	<b>\$ 124,491</b>	<b>\$ 135,930</b>

\*Non-controlling interest reclassification

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

## TAT TECHNOLOGIES LTD

## CONSOLIDATED STATEMENTS OF INCOME

U.S dollars in thousands

	Year ended December 31,		
	2009	2008	2007
Revenues:			
Sale of products	\$ 34,751	\$ 31,724	\$ 18,928
Services	48,340	71,565	69,776
	83,091	103,289	88,704
Cost of revenues:			
Sale of products	23,115	22,977	13,399
Services	43,780	57,586	51,808
	66,895	80,563	65,207
Gross profit	16,196	22,726	23,497
Operating expenses:			
Research and development	680	-	-
Selling and marketing expenses	3,719	4,369	3,719
General and administrative expenses	14,979	12,407	10,995
Gain from sale of the propellers & parts businesses	(4,400)	-	-
	14,978	16,776	14,714
Operating income	1,218	5,950	8,783
Financial income (expenses), net	149	1,174	701
Other income (expenses), net	-	(236)	26,478
Income before income taxes	1,367	6,888	35,962
Taxes on income (benefit)	(765)	1,795	3,212
Share in income (loss) of associated companies	(32)	674	-
Net income	2,100	*5,767	*32,750
Net income attributable to non controlling interest	(347)	*(1,499)	*(771)
Net income attributable to TAT Technologies shareholders	\$ 1,753	\$ 4,268	\$ 31,979
Earnings per share			
Basic	\$ 0.22	\$ 0.65	\$ 5.04
Diluted	\$ 0.22	\$ 0.650	\$ 4.990
Weighted average number of shares - Basic	7,893,639	6,546,055	6,344,041
Weighted average number of shares - Diluted	7,893,639	6,566,249	6,407,504

\*Non-controlling interest reclassification

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

## TAT TECHNOLOGIES LTD

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S dollars in thousands

	TAT Technologies Ltd. Shareholders							
	Share capital		Additional Paid-in capital	Accumulated other Comprehensive income (loss)	Treasury Shares	Retained earnings	Non Controlling interest	Total equity
	Number	Amount						
Balance as of January 1, 2009	6,552,671	\$ 2,204	\$ 39,476	\$ (763)	\$ -	\$ 35,160	\$ 28,700	\$ 104,777
Net income	-	-	-	-	-	1,753	347	2,100
Other comprehensive income:								
Foreign currency translation loss	-	-	-	(293)	-	-	(20)	(313)
Reclassification adjustment on available-for-sale securities	-	-	-	112	-	-	35	147
Total comprehensive income								1,934
Purchase of treasury shares	(258,040)	-	-	-	(2,018)	-	-	(2,018)
Share based compensation expense	-	-	829	-	-	-	138	967
Cash dividends						(6,265)		(6,265)
Dividend paid to non- controlling interest	-	-	-	-	-		(1,266)	(1,266)
Issuance of shares to non- controlling interest (see Note 3(b) (2))	2,520,372	586	24,085		-	-	(25,194)	(523)
Balance as of December 31, 2009	<u>8,815,003</u>	<u>\$ 2,790</u>	<u>\$ 64,390</u>	<u>\$ (944)</u>	<u>\$ (2,018)</u>	<u>\$ 30,648</u>	<u>\$ 2,740</u>	<u>\$ 97,606</u>
Balance as of January 1, 2008	6,542,671	\$ 2,201	\$ 39,308	\$ -	\$ -	\$ 31,284	\$ 24,481	\$ 97,274
Net income	-	-	-	-	-	4,268	1,499	5,767
Other comprehensive income:								
Foreign currency translation loss	-	-	-	(673)	-	-	(559)	(1,232)
Unrealized loss on available-for-sale securities, net of taxes	-	-	-	(90)	-	-	(55)	(145)
Total comprehensive income								4,390
Exercise of options by employees	10,000	3	13	-	-	-		16
Share based compensation expense	-	-	155	-	-	-	66	221
Excess of purchase price over carrying amount of Bentel Industries Ltd. shares acquired from parent company	-	-	-	-	-	(392)		(392)
Non -controlling interest							3,268	3,268
Balance as of December 31, 2008	<u>6,552,671</u>	<u>\$ 2,204</u>	<u>\$ 39,476</u>	<u>\$ (763)</u>	<u>\$ -</u>	<u>\$ 35,160</u>	<u>\$ 28,700</u>	<u>\$ 104,777</u>

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



TAT TECHNOLOGIES LTD

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S dollars in thousands

	TAT Technologies Ltd. Shareholders						
	Share capital		Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Non controlling interest	Total equity
	Number	Amount					
Balance as of January 1, 2007	6,042,671	\$ 2,094	\$ 35,704	\$ -	\$ 1,922	\$ -	\$ 39,720
Net income				-	31,979	771	32,750
Issuance of shares of a subsidiary company				-	-	23,561	23,561
Issuance of shares	500,000	107	3,363				3,470
Share based compensation expense	-	-	241	-	-	149	390
Cash dividends	-	-	-	-	(2,617)	-	(2,617)
Balance as of December 31, 2007	<u>6,542,671</u>	<u>\$ 2,201</u>	<u>\$ 39,308</u>	<u>\$ -</u>	<u>\$ 31,284</u>	<u>\$ 24,481</u>	<u>\$ 97,274</u>

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

## TAT TECHNOLOGIES LTD

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 2,100	\$ *5,767	\$ *32,750
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,970	3,353	2,031
Gain from sale of the propellers & parts businesses	(4,400)	-	-
Exchange differentials of long-term loans	6	-	-
Impairment of goodwill	-	-	143
Loss (gain) on sale of property and equipment	18	(27)	(43)
Loss (gain) on sale of marketable securities	179	236	(34)
Provision for doubtful debts	1,629	(1)	(125)
Share in loss (profit) in associated companies	32	(674)	-
Profit from partial realization of investment in a subsidiary company	-	-	(26,375)
Parent company	356	-	-
Stock based compensation expense	967	221	390
Interest accrual in respect of call option to non-controlling interest	72	*28	-
Changes in operating assets and liabilities:			
Deferred income taxes, net	1,691	(197)	(321)
Decrease (increase) in trade accounts receivable	3,854	(4,177)	(985)
Increase in other accounts receivable and prepaid expenses	(2,185)	(936)	(807)
Increase in inventories	(772)	(2,410)	(3,261)
Decrease in trade accounts payable	(3,916)	(627)	(963)
Increase (decrease) in other accounts payable and accrued expenses	(1,366)	659	(1,564)
Liability in respect of employee rights upon retirement	(1,314)	477	(32)
Net cash provided by (used in) operating activities	(79)	1,692	804
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from partial realization of investment in subsidiary company	-	-	8,726
Acquisition of Non controlling interest in subsidiary	-	(129)	-
Proceeds from sale of marketable securities classified as available-for-sale	24,122	26,358	8,028
Purchase of marketable securities classified as available-for-sale	(15,749)	(9,318)	(36,800)
Funds in respect of employee right upon retirement	1,108	-	-
Proceeds from sale of property and equipment	209	36	97
Purchase of intangible asset	(2,050)	-	-
Purchase of property and equipment	(2,808)	(3,558)	(6,303)
Increase in restricted deposits	(4,062)	(1,009)	-
Decrease in short-term deposits	-	-	1,533
Net cash paid in conjunction with acquisition of a subsidiary (2)	-	(12)	-
Net cash provided by (used in) investing activities	770	12,368	(24,719)

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

## TAT TECHNOLOGIES LTD

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2009	2008	2007
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repayments of long-term loans	\$ (200)	\$ (39)	\$ (8,000)
Proceeds from long-term loans received	2,547	5,000	-
Payment of cash dividend	(6,265)	-	(2,617)
Parent company		193	(796)
Proceeds from exercise of options and warrants	-	16	3,470
Short-term credit received from a bank	1,060	-	-
Dividend paid to non controlling interest	(1,266)	-	-
Repurchase of Company's shares	(2,018)	-	-
Purchase of shares in respect of put option to non controlling interest in a subsidiary	(2,247)	-	-
Issuance expenses in connection with issuance of shares to non controlling interest	(523)	-	-
Proceeds from issuance of shares by subsidiary company to non controlling interest	-	-	41,210
Net cash provided by (used in) financing activities	(8,912)	5,170	33,267
Effect of changes in exchange rate on cash and cash equivalents of foreign currency subsidiary company	(110)	(445)	-
Increase (decrease) in cash and cash equivalents	(8,331)	18,785	9,352
Cash and cash equivalents at the beginning of the year	33,899	15,114	5,762
Cash and cash equivalents at the end of the year	\$ 25,568	\$ 33,899	\$ 15,114
(1) <u>Supplemental disclosure of cash flow information:</u>			
Interest paid	\$ (219)	\$ (187)	\$ (854)
Income taxes paid net	\$ 353	\$ (4,131)	\$ (4,059)
(2) <u>Acquisition of subsidiary, net of cash acquired (see also Note 3(a)):</u>			
Net fair value of the assets acquired and liabilities assumed at acquisition date was as follows:			
Working capital, net (excluding cash and cash equivalents)		\$ (1,291)	
Property and equipment		(2,246)	
Customer base		(878)	
Orders backlog		(568)	
Goodwill		(1,185)	
Long-term loans, net of current maturities		242	
Accrued severance pay		283	
Deferred tax liability		404	
Liability for put option given to minority		2,155	
Non controlling interest		3,002	
Investment in affiliated company account		462	
Excess of purchase price over carrying amount of Bental Industries Ltd. shares acquired from parent company		(392)	
		\$ (12)	
(3) <u>Acquisition of FavS:</u>			
On December 4, 2009 the Company, through its subsidiary Piedmont, was issued shares of FavS, representing 37% of FavS' share capital, in return for Piedmont's propeller and parts businesses. (see also note 3(c)).			
(4) <u>Merger with Limco-Piedmont</u>			
TAT completed a merger with Limco-Piedmont. As part of the merger, TAT acquired the entire remaining shares of Limco-Piedmont held by Limco-Piedmont's public shareholders in exchange for 2,520,372 newly issued shares of TAT (see also note 3(b) (2)).			

\*Non-controlling interest reclassification

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

U.S. dollars in thousands

NOTE 1 - GENERAL

- a. TAT Technologies Ltd., ("TAT" or "the Company") an Israeli corporation, is a leading provider of services and products to the commercial and military aerospace and ground defense industries. Together with its subsidiaries Limco-Piedmont Inc. ("Limco-Piedmont"), Bental Industries Ltd. ("Bental") and TAT Gal Inc. ("TAT Gal") hereafter the Group ("Group"), it is principally engaged in the following activities:
- Design, development, manufacture and sale of a broad range of heat transfer equipment and solutions;
  - Remanufacture, overhaul and repair of heat transfer equipment;
  - Maintenance, repair and overhaul of auxiliary power units, landing gears and related components;
  - Design, development and manufacture of aviation and flow control accessories including fuel components, secondary power systems, and various instrumentation and electronic assemblies;
  - Long-term service contracts for the maintenance and overhaul of certain airplane parts and equipment; and
  - Production and development of precision electric motion systems, mainly earmarked for the defense industries.

The products developed, repaired, and maintained by TAT are primarily used for airborne systems on commercial and military aircrafts as well as for defense ground systems. The principal markets of TAT are in Israel, Europe and the United States.

Limco-Piedmont holds 100% of Limco-Airepair Inc. ("Limco") and of Piedmont Aviation Component Services LLC ("Piedmont") and also holds 37% in First Aviation Services ("FAvS"), a world-wide distributor of products and services to the aerospace industry and a one-stop-shop for Maintenance, repair and overhaul services (for wheels, breaks, propellers and landing gear) for the General Aviation Industry.

- b. TAT's shares are listed on both the NASDAQ (TATT) and Tel-Aviv stock exchange.
- c. TAT's parent company is TAT Industries Ltd., an Israeli corporation whose shares are listed on the Tel-Aviv Stock Exchange ("TAT Industries" or "the parent company"). TAT Industries holds 43.6% out of TAT's shares, as of December 31, 2009.
- d. On July 2, 2009, the parent company's Audit Committee and Board of Directors approved an agreement with the controlling shareholder of the parent company, Isal Amlat Industries (1994) Ltd. (hereinafter: "Isal"), in which Isal is empowering the parent company, or anyone on its behalf, to attend and vote at any meeting of TAT shareholders, with its discretion, Isal's shares of TAT. This agreement shall remain in effect as long as Isal remains the controlling shareholder, as defined the term "control", in the Israeli Securities Law, 1968. As of December 31, 2009, Isal, directly holds additional 10.06% out of TAT's shares.

U.S. dollars in thousands

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

**Accounting principles**

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), applied on a consistence basis, unless otherwise indicated below.

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (Codification or ASC). The Codification became the single authoritative source for U.S. generally accepted accounting principles (GAAP) and changed the way in which the accounting literature is organized. The Codification does not change previous GAAP and accordingly its adoption did not have a material impact on the Group's consolidated financial statements.

**a. Use of estimates in the preparation of financial statement**

The preparation of consolidated financial statements in conformity U.S GAAP requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclose the nature of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

As applicable to these financial statements, the most significant estimates and assumptions relate to revenue recognition, inventory reserve, provision for doubtful account, impairment of long lived assets and goodwill, fair value estimation in the FAvS transaction and provision for taxes.

**b. Functional currency**

The majority of TAT's revenues are generated in U.S. dollars ("dollar") and a substantial portion of TAT's costs is incurred in dollars. In addition, a significant portion of TAT's financings have been obtained in dollars. Accordingly, the dollar is the currency of the primary economic environment in which TAT operates and accordingly its functional and reporting currency is the dollar.

Transactions and balances of TAT and certain subsidiaries which are denominated in other currencies have been remeasured into dollars in accordance with principles set forth in ASC 830 "Foreign Currency Matters". All exchange gains and losses from the remeasurement mentioned above are reflected in the statement of income as financial income (expenses), net.

For Bental whose functional currency has been determined to be the New Israeli Shekel, assets and liabilities are translated at year-end exchange rates, and statement of income items are translated at average exchange rates prevailing during the year. Resulting translation differences are recorded as a separate component of accumulated other comprehensive income (loss) in equity

U.S. dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

**c. Principles of consolidation**

The consolidated financial statements include the accounts of TAT and its subsidiaries.

In these financial statements, "subsidiaries" are companies that are over 50% controlled, the financial statements of which are consolidated with those of the Company.

Intercompany balances and transactions, including profits from intercompany sales not yet realized outside the group, have been eliminated upon consolidation. As of the change in accounting policy effective January 1, 2009 see note 2(z).

**d. Cash equivalents**

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less, when purchased.

**e. Marketable securities**

The Company classifies all of its marketable securities as available-for-sale securities in accordance with ASC 320 "Investment in Debt and Equity Securities". Such marketable securities consist primarily of auction rate tax-exempt securities and corporate and government bonds with maturities of up to four years, which are stated at market value. Unrealized gains and losses are comprised of the difference between market value and amortized costs of such securities and are reflected as "accumulated other comprehensive income (loss)" in equity. Realized gains and losses on marketable securities are included in earnings. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is determined to be other-than-temporary.

In April 2009, the FASB amended the accounting guidance governing impairment of marketable debt securities. Other -than-temporary impairment is triggered when there is intent to sell the security, it is more likely than not that the security will be required to be sold before recovery of its amortized cost basis, or the entity does not expect to recover the entire amortized cost basis of the security. If the debt security's market value is below its amortized cost and the Company either intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the Company records other -than-temporary impairment charge under financial expenses for the entire amount of the impairment. For the remaining debt securities, if other-than-temporary impairment exists, the Company separates the other-than-temporary impairment into the credit loss portion and the noncredit loss portion. The credit loss portion is the difference between the amortized cost of the security and the Company's best estimate of the present value of the cash flows expected to be collected from the debt security. The noncredit loss portion is the residual amount of the other-than-temporary impairment. The credit loss portion is recorded under financial expenses, and the noncredit loss portion is recorded as a separate component of other comprehensive income (loss), net of applicable taxes. This amendment became effective as of April 1, 2009. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

U.S. dollars in thousands

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)**

The fair value of short-term investments is determined by quoted market prices where applicable of the underlying securities (other than auction rate tax exempt securities – see below). For purposes of determining gross realized gains or losses, the cost of the security is determined based on specific identification.

As of December 31, 2009, TAT held certain assets that are required to be measured at fair value on a recurring basis, including available-for-sale securities. TAT's available-for-sale securities include auction-rate securities which consist of bonds with an auction reset feature whose underlying assets are Oklahoma state municipal bonds.

Accordingly, these investments were compared, when possible, to other observable market data with similar characteristics to the securities held by TAT. As of December 31, 2009 and 2008, there are no indications for impairment of these investments.

**f. Trade accounts receivable**

TAT's accounts receivable balances are due from companies primarily in the airline and defense industries. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable from sales of services are typically due from customers within 30 – 90 days. Accounts receivable balances are stated at amounts due from customer net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payments terms are considered past due. TAT determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, TAT's previous loss history, the customer's current ability to pay its obligation to TAT, and the condition of the general economy and the industry as a whole. TAT writes-off accounts receivable when they become uncollectible. Payments subsequently received on such receivables are credited to the allowance for doubtful accounts. The allowance for doubtful accounts is determined with respect to specific debts that are doubtful of collection.

U.S. dollars in thousands

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

## g. Inventories

Inventories are measured at the lower of cost or market. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition.

Cost of inventories is assigned as follows:

Raw materials and parts	-	On the basis of standard cost and the first-in, first-out (FIFO) methods which take into account materials.
Work in progress	-	On the basis of standard cost which takes into account materials, labor and other direct and indirect manufacturing costs, or identifiable direct costs.
Finished goods	-	On the basis of standard cost which takes into account materials, labor and other direct and indirect manufacturing costs, or identifiable direct costs.

Because the Company sells products and services related to airplane accessories (heat transfer equipment, APU's, propellers and landing gear) for airplanes that can be in service for 20 to 50 years, it must keep a supply of such products and parts on hand while the airframes are in use. TAT writes down its inventory for estimated obsolescence and unmarketable inventory equal to the difference between the cost of inventory and estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those anticipated, inventory adjustments may be required. TAT believes that these estimates are reasonable and historically have not resulted in material adjustments in subsequent periods when the estimates are adjusted to actual amounts.

## h. Property, plant and equipment

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

	years
Buildings	25
Machinery and equipment	3 - 10
Motor vehicles	6 - 7
Office furniture and equipment	3 - 20

Leasehold improvements are amortized using the straight line method over the period of the lease contract, provided that this period does not exceed the useful life of the asset.



U.S. dollars in thousands

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)****i. Investment grants**

As a governmental incentive for industrial companies in Israel, the "Investment Center", which is a branch of the Israel Ministry of Industry and Trade, permits industrial companies to submit a request to qualify as an "Approved Enterprise". An Approved Enterprise is entitled to certain benefits in respect of its capital investments. The benefits may be in the form of reduced tax rates and of capital grants received as a percentage of the investments of the Approved Enterprise.

These capital grants are non-royalty bearing and are not conditioned on the results of operations. As the capital grants are a direct participation in the cost of the acquisition of property, plant and equipment, they are offset against the cost of property, plant and equipment.

**j. Investment in Companies Accounted for using the Equity Method**

Investments in which the Company exercises significant influence, which are not considered subsidiaries ("associate"), is accounted for the equity method, whereby the Company recognizes its proportionate share of the company's net income or loss after the date of investment. The Company's investment in FAvS is accounted for the equity method.

**k. Goodwill and other Intangible assets**

Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired.

Under ASC 350 "Intangibles - Goodwill and Other", goodwill is not amortized but instead is tested for impairment at least annually (or more frequently if impairment indicators arise). The Company determined September 30, 2009 as the date of the annual impairment test. Goodwill impairment was also tested as of December 31, 2008 and 2007.

Goodwill impairment testing is a two-step process. The first step involves comparing the fair value of the Company's reporting units to their carrying amount. If the fair value of the reporting unit is determined to be greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is determined to be greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of the goodwill in this step is compared to the carrying value of goodwill. If the implied fair value of the goodwill is less than the carrying value of the goodwill, an impairment loss equivalent to the difference is recorded.

## U.S. dollars in thousands

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

As of December 31, 2009 and 2008, no instances of impairment were found. In 2007 \$143 was recorded as impairment loss.

Other intangible assets

Intangible assets are recorded at fair value at the time of the acquisition, and are carried at such value less accumulated amortization and impairment. The Company amortizes these intangible assets on a straight- line basis over their estimated lives. The Company's intangibles and their estimated useful lives are as follows:

	Years
Customer relationship	5 - 10
Order backlog	0.4
Non-compete agreements	3
License for service center	5
Trade name	10
Others	2.5-7

**l. Impairment of long-lived assets**

The Company's long-lived assets and definite life intangibles subject to amortization 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 an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of the asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value. During 2009, 2008 and 2007, no impairments losses have been identified.

**m. Treasury Stock**

Company shares held by the Company are presented as a reduction of TAT's shareholders' equity at their cost to the Company.

U.S. dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

**n. Revenue recognition**

TAT generates its revenues from the sale of products and systems (The OEM segments) and from providing MRO services (remanufacture, repair and overhaul services and long-term service contracts) and parts services.

Revenues from the sale of products and services are recognized in accordance with ASC 605 "Revenue Recognition", when persuasive evidence of an arrangement exists, delivery of the product has occurred, provided the collection of the resulting receivable is probable, the price is fixed or determinable and no significant obligation exists. TAT does not grant a right of return.

Revenues from product sales are recognized when product is shipped to the customer and title passes to the customer.

Revenues from multi-year, fixed price contracts for OEM customers are recognized when a product is shipped (and title passes) to the customer. Management provides for losses, if expected for the remaining portion of such contracts. For the years ended December 31, 2009, 2008 and 2007, no losses have been recognized for such fixed price contracts.

Revenues from remanufacture, repair and overhaul (MRO) services are recognized as services are performed, at the time when the customer-owned material is shipped back to the customer.

Revenues from maintenance contracts are accounted according to ASC 605 "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts". Accordingly, revenues from maintenance contracts are recognized over the contract period in proportion to the costs expected to be incurred in performing services under the contract. TAT estimates the costs that are expected to be incurred based on its experience with the aggregate costs incurred and to be incurred on contracts of this nature. The cost incurred related to the maintenance contracts are not incurred on a straight-line basis, as the timing to provide the maintenance services is dependent on when parts under these contracts require maintenance. Therefore, TAT accrues revenue based on anticipated margins per contract as costs are incurred. These revenues are then compared to actual results and adjusted to either deferred revenue for results greater than historical estimates or expensed in those cases of performance less than historical estimates. These accounts are reviewed monthly and adjusted as needed based on cost structures.

Revenues from royalties from sales of products developed with TAT's intellectual property, technology and technical assistance are recognized when the related sales are made.

**o. Shipping and handling costs**

Shipping and handling costs billed to customers are included in revenues. The cost of shipping and handling products is included in the costs of revenues.

U.S. dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

p. **Warranty costs**

TAT provides warranties for its products and services ranging from one to three years, which vary with respect to each contract and in accordance with the nature of each specific product.

TAT estimates the costs that may be incurred under its warranty and records a liability in the amount of such costs at the time the product is shipped. TAT periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

q. **Research and development**

Research and development costs net of grants and participations received are charged to expenses as incurred, and are related to the plan or design of new or significant improvement of process or product.

r. **Income taxes**

Income taxes are accounted for in accordance with ASC 740 "Income Taxes". This statement prescribes the use of the asset and liability method, whereby deferred tax assets and liability account balances are determined based on temporary differences between financial reporting and tax bases of assets and liabilities and for tax loss carry-forwards. Deferred taxes are measured using the enacted laws and tax rates that will be in effect when the differences are expected to reverse. TAT provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value, see Note 16j.

Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting or, if not related to an asset or liability for financial reporting, according to the expected reversal dates of the specific temporary differences.

Taxes which would apply in the event of disposal of investments in non-Israeli subsidiaries have not been taken into account in computing the deferred taxes, as it is the Company's intention to hold, and not to realize, these investments.

Dividends distributable from the income of non Israeli subsidiaries companies: As the Company does not expect these companies to regularly distribute dividends in the foreseeable future it did not record deferred taxes in respect of taxes that would have been paid in such event.

Results for tax purposes for TAT's Israeli subsidiaries are measured and reflected in NIS and for TAT's U.S subsidiaries are measured and reflected in U.S Dollars. As explained in (b) above, the consolidated financial statements are presented in U.S. dollars. In accordance with ASC 740, TAT has not provided deferred income taxes on the differences resulting from changes in exchange rate and indexation.

U.S. dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

TAT did not provide for deferred taxes attributable to dividend distribution out of retained tax-exempt earnings from "Approved Enterprise" plans (see Note 16c), since it intend to permanently reinvest them and has no intention to declare dividends out of such tax exempt income. Management considers such retained earnings to be essentially permanent in duration.

On January 1, 2007, the Company adopted a new pronouncement which clarify the, "Accounting for Uncertainty in Income Taxes, an Interpretation of ASC 740". The pronouncement contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740. 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 probability) likely to be realized upon ultimate settlement.

The Company classifies interest and penalties expenses in financial expenses, net.

s. **Concentrations of credit risk**

Financial instruments that potentially subject TAT to concentrations of credit risk consist principally of cash and cash equivalents, restricted deposits, marketable securities and accounts receivable.

Cash, cash equivalents and restricted cash are deposited with major banks in Israel and the United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold TAT's cash, cash equivalents and restricted cash are financially sound, accordingly, minimal credit risk exists with respect to these financial instruments.

TAT's marketable securities include investment in debentures and in shares. Management believes that the companies that issued the debentures and the shares are financially sound, the portfolio is well diversified, and accordingly, minimal credit risk exists with respect to the marketable securities.

TAT's accounts receivable are derived mainly from sales to customers in the United States, Israel and Europe. TAT generally does not require collateral, however, in certain circumstances TAT may require letters of credit. Management believes that credit risks relating to accounts receivable are minimal since the majority of TAT's customers are world-leading manufacturers of aviation systems and aircrafts, international airlines, governments and air-forces, and world-leading manufacturers and integrators of defense and ground systems. In addition TAT has relatively large number of customers with wide geographic spread which balances and mitigates the credit risk. TAT performs ongoing credit evaluation of their customers' financial condition.

U.S. dollars in thousands

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)**

The allowance for doubtful accounts (income) expenses for the years ended December 31, 2009, 2008 and 2007, was \$1,629, (\$1), and (\$125), respectively. The majority of the increase in the provision for doubtful accounts (\$1,725) in 2009 was as a result of one of the Company's clients entered into bankruptcy procedures. The Company provided a provision for the entire amount for this client.

**t. Fair value of measurement**

Effective January 1, 2008, the Company adopted the applicable financial accounting rules which define fair value, establish a framework for measuring fair value and enhance fair value measurement disclosure. Under these rules, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the 'exit price') in an arms' length transaction between market participants at the measurement date.

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

As for the fair value for marketable securities classified as available-for-sale, see (e) above.

On January 1, 2009, the Company adopted a newly issued accounting standard for fair value measurement of all non-financial assets and liabilities as well. The adoption did not have a significant effect on the Company's financial statements.

In April 2009, the FASB issued additional guidance on factors to consider when estimating fair value consequent to a significant decrease in market activity for a financial asset. As applicable for TAT, this guidance became effective for interim and annual periods starting April 1, 2009, and did not have a material impact on the Company's consolidated financial statements.

The accounting standard establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

**u. Derivative financial instruments**

As part of its hedging strategy, TAT enters into forward exchange contracts in order to protect TAT from the risk that the eventual dollar cash flows from the sale of products to international customers will be adversely affected by changes in exchange rates. All forward contracts are recognized on the balance sheet at their fair value

U.S. dollars in thousands

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)**

TAT also enters into forward exchange contracts and options strategies in order to limit the exposure to exchange rate fluctuation associated with payroll expenses mainly incurred in NIS. TAT elected not to follow the designation and documentation processes required to qualify for the hedge accounting method under ASC 815 "Derivative and Hedging", and any gain or loss derived from such instruments is recognized immediately as financial expenses, net.

As of December 31, 2009, TAT had forward contracts with a notional amount of approximately \$75 to purchase NIS . This foreign exchange forward put and call options have maturities of 12 months or less. The fair value of the foreign exchange contracts and the options was not significant as of December 31, 2009. As of December 31, 2008, TAT didn't have forward contracts.

The cash flows associated with derivatives are reflected as cash flows from operating activities in the statements of cash flows.

**v. Basic and diluted net income per share**

Basic net income per share is computed based on the weighted average number of ordinary shares outstanding during each year (net of treasury shares). Diluted net income per share includes the potential effect of stock option and warrants outstanding during the year, in accordance with ASC 260 "Earnings Per Share", using the treasury stock method.

**w. Share-based compensation**

The Company applies ASC 718 "Stock compensation" with respect to employees options, which requires awards classified as equity awards, to be accounted for using the grant-date fair value method. The fair value of share-based awards is estimated using the Black-Scholes valuation model, the payment transaction is recognized as expense over the requisite service period, net of estimated forfeitures. The Company estimated forfeitures based on historical experience and anticipated future conditions.

The Company recognizes compensation cost for an award with only service conditions that has a graded vesting schedule using the accelerated method over the requisite service period for the entire award.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

## x. Comprehensive income (loss)

The Company reports comprehensive income (loss) in accordance with ASC 220 "Comprehensive Income". This statement establishes standards for the reporting and presentation of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in equity during the period except those resulting from investments by, or distributions to, stockholders. Other comprehensive income relate to unrealized gains and losses on available-for-sale securities and foreign currency translation adjustments.

Components of accumulated other comprehensive income (loss):

	December 31,	
	2009	2008
Currency translation adjustment	\$ (946)	\$ (673)
Unrealized gain (loss) from available-for-sale securities	2	(90)
Accumulated other comprehensive loss	<u>\$ (944)</u>	<u>\$ (763)</u>

## y. Segment reporting

ASC 280 "Segments Reporting", requires that companies report separately in the financial statements certain financial and descriptive information about operating segments.

For information as to the Company's operating segments and major customers, see note 17.

## z. Impact of recently issued Accounting Standards:

## 1. Adoption of New Accounting Standards during the period

- (a) Effective June 15, 2009, the Company adopted ASC 855, "Subsequent Events", establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statement are issued or are available to be issued. The Company has evaluated all subsequent events through the date the financial statement were issued. The adoption of this ASC did not have a material effect on the Company's consolidated financial statements.
- (b) Effective January 1, 2009, the Company adopted, ASC 350-30 "Determination of the Useful Life of Intangible Assets" that amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC 350. ASC 350-30 requires a consistent approach between the useful life of a recognized intangible asset under ASC 350 and the period of expected cash flows used to measure the fair value of an asset under ASC 805. The ASC also requires enhanced disclosures when an intangible asset's expected future cash flows are affected by an entity's intent and/or ability to renew or extend the arrangement. The adoption of this ASC did not have a material effect on the Company's consolidated financial statements.



U.S. dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

**z. Impact of recently issued Accounting Standards (Cont):**

**1. Adoption of New Accounting Standards during the period (Cont)**

- (c) Effective January 1, 2009, the Company adopted ASC 805 "Business Combinations". ASC 805 establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any Non controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination.
- (d) In December 2007, the FASB issued a new standard which established the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability (as was previously the case); that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or gains or losses on purchases or sales; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also required changes to certain presentation and disclosure requirements. For TAT, the standard was effective beginning January 1, 2009. The provisions of the standard were applied to all NCIs prospectively, except for the presentation and disclosure requirements, which were applied retrospectively to all periods presented. As a result, upon adoption, TAT retroactively reclassified the "Minority interest in subsidiaries" balance previously included in the "Other liabilities" section of the consolidated balance sheet to a new component of equity with respect to NCIs in consolidated subsidiaries. The adoption also impacted certain captions previously used on the consolidated statement of income, largely identifying net income including NCI and net income attributable to TAT and with the connection with the merger with Limco-Piedmont see note 3(b)(2).

U.S. dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

**z. Impact of recently issued Accounting Standards (Cont):**

**1. Adoption of New Accounting Standards during the period (Cont)**

- (e) In April 2009, the FASB issued ASC 805-20 "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies". ASC 805-20 amends the provisions in ASC 805 for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. ASC 805-20 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and provisions in SFAS No. 141 for acquired contingencies. ASC 805-20 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of ASC 805-20 did not have a material effect on Company's consolidated financial statements.
- (f) In November 2008, the FASB ratified Emerging Issues Task Force ("EITF") 08-6, "Equity Method Investment Accounting Considerations," as codified in Accounting Standards Codification ("ASC") Topic 323. This guidance clarifies that the initial carrying value of an equity method investment should be recognized using a cost accumulation model and generally excludes contingent consideration. This guidance also clarifies that the equity method investment as a whole should be assessed for other-than-temporary impairment and that a separate impairment assessment of the underlying assets is not required. An equity method investor shall recognize its share of any impairment charge recorded by an investee and consider the effect, if any, of the impairment on the investor's basis difference in the assets giving rise to the investee's impairment charge. In addition, this guidance concludes that an equity method investor shall recognize gains or losses in earnings for the issuance of shares by the equity method investee, as if the investor had sold a proportionate share of its investment. This guidance is effective on a prospective basis in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company adopted this guidance commencing January 1, 2009. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

U.S. dollars in thousands

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

## 2. Recently issued accounting Standards

## (a) Consolidation of Variable Interest Entities

In June 2009, the FASB issued FAS 167, "Amendments to FASB Interpretation No. 46(R)", codified in ASC Topic 810, "Consolidation". The new guidance eliminates FASB Interpretation 46(R) (FIN 46(R))'s exceptions for consolidating qualifying special-purpose entities, contains new criteria for determining the primary beneficiary, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a variable interest entity. The elimination of the qualifying special-purpose entity concept and its consolidation exceptions means more entities will be subject to consolidation assessments and reassessments. Furthermore, this guidance requires, inter alia, a company to assess the determination of the primary beneficiary of a VIE based on whether the company has the power to direct matters that most significantly impact the activities of the VIE, and the obligation to absorb losses or the right to receive benefits of the VIE. This guidance also requires additional disclosures regarding an entity's involvement in a variable interest entity. This guidance is effective for fiscal years beginning after November 15, 2009. Early application is prohibited. The Company does not expect the adoption of the standard to have a material impact on our financial condition or results of operations

- (b) In January 2010, the FASB updated the "Fair Value Measurements Disclosures". More specifically, this update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value, and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. As applicable to the Company, this will become effective as of the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 roll forward information, which is required for annual reporting periods beginning after December 15, 2010 and for interim reporting periods within those years. As applicable to the Company, the adoption of the new guidance will not have a material impact on its consolidated financial statements.

U.S. dollars in thousands

**NOTE 3 - ACQUISITION**

a. Acquisition of Bental Industries Ltd.

On August 18, 2008, following a series of transactions described below, TAT acquired 70% control in Bental, an Israeli corporation that is a leading supplier of innovative motion technologies for ground and aviation applications to the defense and commercial industries. This acquisition expanded TAT's product lines as well as increased its operations in the defense field while penetrating into new growing markets.

On March 27, 2008, TAT entered into an agreement with Bental Investments Cooperative Agricultural Society Ltd., ("Bental Investments"), to purchase 27% of the outstanding shares of Bental, together with a call and put option for an additional 18% of their outstanding shares of Bental held by Bental Investments.

The call option was for a period of four years commencing January 1, 2009 with an exercise price of \$2,250, and the put option was for a period of two years commencing January 1, 2011 with an exercise price of \$2,138 (both subject to certain exchange rate adjustments). The exercise prices carried interest of 2% per annum.

On April 15, 2008, TAT entered into an agreement to purchase an additional 10% of the outstanding shares of Bental from Mivtach Shamir Investments (1993) Ltd., ("Mivtach"), subject to the completion of the acquisition from Bental Investment.

On August 18, 2008, following TAT Industries shareholders' approval, TAT acquired an additional 15% shareholding in Bental from TAT Industries for a cash consideration of \$1,893, which was based on the price agreed for the shares in the above transactions.

On March 30, 2009, TAT exercised the call option to purchase 18% of Bental's share capital in consideration for approximately \$2.25 million.

The agreement with Bental Investment also provides for the payment of additional consideration by TAT in the event that during the three year period following the closing of the transaction TAT consummates an "exit," as such term is defined in the agreement. In such event, Bental Investments will be entitled for an additional consideration for the shares equal to a certain percentage of the difference between the price per share that TAT paid for such shares and the price per share paid in the exit transaction (30% if the exit is within one year of the closing, 20% if the exit is within two years of the closing and 10% if the exit is within three years of the closing).

The acquisition of Bental was accounted for using the purchase method of accounting "Business Combinations", as step acquisitions of 37% as of May 21, 2008 (the Closing Date), and the remaining 33% as of August 18, 2008. The acquisition of the 15% from TAT Industries was recorded based on the carrying value of the investment in TAT's books of \$1,501 (the difference of \$392 was recorded to retained earnings). The liability for the 18% call/put option was recorded based on the accounting treatment for, "Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Non controlling Interest in that Subsidiary", as a purchase and financing transaction, since the risks and rewards of owning the 18% interest have been purchased by TAT.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 3 - ACQUISITION (CONT)

## a. Acquisition of Bental Industries Ltd. (Cont)

According to "Written Put Option and Purchased Call Option Embedded in non controlling Interest" TAT recorded \$28 of accrued interest under the call/put option to interest expense during 2008.

The total purchase price of \$9,262 (including acquisition expenses of \$36) has been allocated to the assets acquired and the liabilities assumed based on the estimated fair value on August 18, 2008 (taking into account the short time between the transactions, management believes that the difference in the fair value of assets as of May 21, 2008 and August 18, 2008 is insignificant) as follows:

	<b>August 18, 2008</b>
<b>Assets:</b>	
Cash acquired	\$ 7,025
Other current assets	8,535
Property and equipment	2,246
<b>Intangible Assets:</b>	
Intangible assets (1)	1,446
Goodwill (2)	<u>1,185</u>
<b>Total assets acquired</b>	<u>20,437</u>
<b>Liabilities assumed:</b>	
Current liabilities	7,244
Long-term liabilities	<u>929</u>
	<u>8,173</u>
<b>Non controlling interest</b>	<u>3,002</u>
<b>Net assets acquired</b>	<u>\$ 9,262</u>

The historical consolidated financial information has been adjusted to give effect to pro forma adjustments that are (1) directly attributable to the acquisition, (2) factually supportable, and (3) expected to have a continuing impact on the combined results. The unaudited pro forma financial information is presented for comparative purposes only, it is not necessarily indicative of the operating results that would have occurred if the acquisition had been completed at January 1, 2007 and January 1, 2008, and it is not necessarily indicative of future operating results.

## U.S. dollars in thousands

## NOTE 3 - ACQUISITION (CONT)

- a. Acquisition of Bental Industries Ltd. (Cont)

The unaudited pro forma information is as follows:

	Year ended December 31, 2008	Year ended December 31, 2007
Net revenues	\$ 125,683	\$ 105,049
Net income after noncontrolling interest	\$ 6,930	\$ 32,723
Basic net earnings per share	\$ 1.059	\$ 0.516
Diluted net earnings per share	\$ 1.055	\$ 0.511

As of the date of these financial statements, TAT holds approximately 70% of Bental's share capital.

- b. Limco-Piedmont

As of December 31, 2009, TAT owned 100% of its U.S. subsidiary Limco-Piedmont.

- (1) On July 2007, Limco-Piedmont completed an initial public offering ("IPO") of its shares at, following which TAT held 61.83% of its share capital. In condition with the IPO, TAT recognized a gain of \$26.4 million, before taxes of \$1.2 million. Of such gain, \$21.7 million was attributed to the sale of 4,205,000 shares to the public by Limco-Piedmont for \$41.2 million net of issuance costs. \$4.7 million was attributed to the gain TAT recorded as a result of the sale of 855,000 shares of common stock of Limco-Piedmont it held for \$8.7 million net of issuance costs.
- (2) On July 2, 2009, TAT completed a merger with Limco-Piedmont. As part of the merger, TAT acquired the entire remaining shares of Limco-Piedmont held by Limco-Piedmont's public shareholders in exchange for 2,520,372 newly issued shares of TAT. Following the acquisition, Limco-Piedmont became a private company wholly-owned by TAT. Upon the merger's completion, Limco-Piedmont's public shareholders held approximately 27.8% of TAT 's issued share capital.

The transaction was accounted for by the Company in accordance with ASC 810 "Consolidation" (see Note 2(z)) whereby a transaction with the Non controlling, that does not consist of change in control, will be treated as a transaction according to the capital track and will therefore not lead to recognition of income or loss or affect the amount of goodwill. Accordingly, the Company carried the difference between the Non controlling interest obtained and those disposed of to a capital reserve recorded in the consolidated statement of changes in equity under "additional paid in capital". As part of the merger mentioned above, all of Limco – Piedmont's outstanding share options at the time of the merger were cancelled, See note 14(e)(6).

U.S. dollars in thousands

## NOTE 3 - ACQUISITION (CONT)

## b. Limco-Piedmont (Cont)

- (3) On January 29, 2009, Limco-Piedmont's board of directors decided on a plan to relocate the Limco plant in Oklahoma to the Piedmont site in North Carolina in order to achieve cost-effectiveness in joint fixed expenses and to create operating synergy. On July 29, 2009, TAT announced that it had decided not to pursue the plant relocation process. During 2009, an amount of approximately \$ 604 was recorded in the income statement in respect of the relocation activity.

## c. Acquisition of shares of FAvS

On December 4, 2009, the Company, through its subsidiary Piedmont, signed an investment agreement with FAvS. According to the agreement Piedmont was issued 5,766,667 Ordinary B shares of FAvS representing 37% of FAvS' share capital on a diluted basis and \$ 750 of FAvS Preferred shares (entitlement to cash dividends at an annual rate of 12% payable quarterly or to additional Preferred shares at an annual rate of 15%) in return for Piedmont's propeller and parts businesses. The net assets value as of December 4, 2009, of the propeller and parts businesses was \$4,325, the fair value of FAvS' Ordinary shares and Preferred shares was \$8,931 (including businesses' acquisition expenses of \$200).

FAvS is a provider of products and services for the global aviation industry and provides supply chain management services and renovation and repair services for various wheels, brakes and starter/generators. On that date, FAvS also signed an agreement to purchase all the assets and liabilities of Kelly Aerospace Turbine Rotables ("KATR"). KATR specializes in renovation and repair of landing gear, safety equipment and hydraulic and electrical components for corporate, regional and military aircraft. Piedmont also provided a guarantee for a period of up to two years and up to \$ 7,000 in respect of FAvS' debt in connection with the acquisition of KATR (see also note 13 (e)). The fair value of the guarantee was based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers.

FAvS' shares are quoted over the counter (OTC) at the PINKSHEET stock market (PINKSHEET: FAVS). FAvS' share value as of the closing date (December 4, 2009) and as of December 31, 2009 is \$0.89 and \$0.75, respectively. The Company believes that the share value does not reflect the fair value of FAvS' share, because of the very low trading volume in FAvS' shares that do not comprise an active market. Therefore, the Company initiated third party valuation to determine the fair value of FAvS. According to the appraisal, FAvS' fair value amounted to \$22,549 as of December 4, 2009. Management believes that the appraisal performed by management represents in a more appropriate manner the true valuation of FAvS.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 3 - ACQUISITION (CONT)

## c. Acquisition of shares of FAvS (Cont)

As a result of the sale of Piedmont's propellers and parts businesses, the Company recorded a gain in the amount of \$4,400 in its consolidated statement of income. The gain resulted from the sale of the assets and liabilities of Piedmont's propeller and parts businesses which were transferred to FAvS, and comprises the difference between the fair value of the assets and liabilities at the closing date as measured by third party valuation (which was substantially similar to the value of the shares received) and between their book value at the closing date.

FAvS' operation results for the period commencing December 4, 2009 and through December 31, 2009, do not have material effect on the Company's income statement.

## NOTE 4 - AVAILABLE-FOR-SALE - MARKETABLE SECURITIES

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
<b>Available-for-sale:</b>				
Corporate debentures – Auction Rate Securities (1)	\$ 2,200	\$ -	\$ -	\$ 2,200
Trust funds (2)	717	2	-	719
	<u>\$ 2,917</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 2,919</u>
	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
<b>Available-for-sale</b>				
Corporate debentures – Auction Rate Securities (1)	\$ 2,250	\$ -	\$ -	\$ 2,250
Corporate debentures	10,040	-	(90)	9,050
	<u>\$ 12,290</u>	<u>\$ -</u>	<u>\$ (90)</u>	<u>\$ 11,300</u>



U.S. dollars in thousands

**NOTE 4 - AVAILABLE-FOR-SALE - MARKETABLE SECURITIES (CONT)**

- (1) Auction Rate Securities (hereinafter - ARS) are a type of long-term bonds (usually issued for period longer than ten years) issued by corporates, local authorities, institutions of higher education and others for securitization of assets. The ARS bears variable interest rate, re-determined by an auctions held every short period. The ARS interest held by the Company is re-determined every 7, 28 or 35 days and will mature on 2019. The ARS held by TAT is issued by SSM Health Care of Oklahoma City, Illinois and Wisconsin municipals. These financial instruments were classified as short term in the financial statements since the Company has intention to exercise them during the twelve months. As of December 31, 2009, a provision for impairment was not found necessary.
- (2) Trust funds are a type of short-term marketable securities consist a predefined composition of debt securities, corporate bonds, shares and other securities, issued by financial institutions and have an active market. These trust funds are classified as available-for-sale and are recorded at fair value based on market quote.

The marketable securities which are all classified as short-term based on the Company's intent to realize them in the twelve months.

**NOTE 5 - FAIR VALUE MEASUREMENT**

In accordance with ASC 820, the Company measures marketable securities and auction rate securities at fair value. Available for sale marketable securities are classified within Level 1 or Level 2. Foreign currency derivative contracts are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs.

Investments in auction rate securities are classified within Level 2 since they are valued using observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

The Company estimated the fair value of the auction rate securities using the following: (i) the underlying structure and contractual provisions of each security; (ii) observing prices that are based on inputs not quoted on active markets, but corroborated by market data and (iii) consideration of the probabilities of default, auction failure, or repurchase at par for each period. These estimated fair values could change significantly based on future market conditions, which could result in recognizing other-than-temporary impairment losses.

## U.S. dollars in thousands

## NOTE 5 - FAIR VALUE MEASUREMENT (CONT)

The Company's financial assets measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following types of instruments:

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 25,568	\$ -	\$ -	\$ 25,568
Derivatives	-	75	-	75
Corporate debentures - Auction Rate Securities	-	2,200	-	2,200
Trust funds	719	-	-	719
Total	\$ 26,287	\$ 2,275	\$ -	\$ 28,562

  

	December 31, 2008			
	Level 1	Level 2	Level 3	Total
Assets				
Money Market funds (included in cash and cash equivalents)	\$ 18,807	\$ -	\$ -	\$ 18,807
Corporate debentures- Auction Rate Securities	-	2,250	-	2,250
Municipal bonds	9,050	-	-	9,050
Total	\$ 27,857	\$ 2,250	\$ -	\$ 30,107

Level 1-Valuations based on quoted prices in active markets for identical assets or liabilities 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 quoted prices in markets that are not active but for which all significant inputs are observable, either directly or indirectly.

Consistent with the Company's investment policy guidelines, the ARS investments held by the Company all had AAA credit ratings at the time of purchase.

The estimated market value of the Company's ARS holdings in collateralized debt obligations as of December 31, 2009 and as of 2008 were \$2,200 and \$2,250, respectively, with no impairments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## U.S. dollars in thousands

## NOTE 5 - FAIR VALUE MEASUREMENT (CONT)

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their generally short maturities.

The fair values of long-term liabilities were estimated by discounting the future cash flows, using the rate currently available for liabilities of similar terms and maturity. The carrying amount of TAT's long-term liabilities approximates their fair value.

## NOTE 6 - INVENTORIES

Inventories are composed of the following:

	December 31,	
	2009	2008
Raw materials and components	\$ 10,263	\$ 10,179
Work in process	18,091	17,503
Spare parts	5,197	7,251
Finished goods	69	81
	<u>\$ 33,620</u>	<u>\$ 35,014</u>

Raw materials and components are net of reserve for slow moving and surplus production in the amount of \$2,309 and \$2,036 at December 31, 2009 and 2008, respectively.

## NOTE 7 - PROPERTY, PLANT AND EQUIPMENT, NET

Composition of assets, grouped by major classifications, is as follows:

	December 31,	
	2009	2008
Cost:		
Land and buildings (1)	\$ 4,889	\$ 3,734
Machinery and equipment (2)	33,190	32,875
Motor vehicles	1,554	1,873
Office furniture and equipment	1,802	1,804
	<u>41,435</u>	<u>40,286</u>
Less: Accumulated depreciation	26,972	25,099
Depreciated cost	<u>\$ 14,463</u>	<u>\$ 15,187</u>

Depreciation expenses amounted to \$2,427, \$2,393 and \$1,557 for the years ended December 31, 2009, 2008 and 2007, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 7 - PROPERTY, PLANT AND EQUIPMENT, NET (CONT)

- (1) Includes lease rights to land in the amount of \$1 under a sub-lease agreement with TAT Industries. The lease period ends in 2020 and includes a renewal option if TAT Industries exercises the option granted by the Israel Land Administration. See also Note 10a.
- (2) The cost is net of investment grants received by Bental in the amount of \$146 and \$299 as of December 31, 2009 and 2008.

Liens on property, plant and equipment is discussed at Note 13f.

## NOTE 8 - GOODWILL AND INTANGIBLE ASSETS

- a. Intangible assets:

	December 31,	
	2009	2008
Cost:		
Customer relationships	\$ 1,692	\$ 2,815
Order backlog	505	568
Non-compete agreement	653	653
Trade name	70	128
License for service center	2,050	-
Others	145	179
	<u>5,115</u>	<u>4,343</u>
Accumulated amortization:		
Customer relationships	624	620
Order backlog	505	568
Non-compete agreement	653	653
Trade name	30	128
License for service center	250	-
Others	129	179
	<u>2,191</u>	<u>2,148</u>
Amortized cost	<u>\$ 2,924</u>	<u>\$ 2,195</u>

Amortization expense amounted to \$543, \$960 and \$474 for the years ended December 31, 2009, 2008 and 2007, respectively.

U.S. dollars in thousands

**NOTE 8 - GOODWILL AND INTANGIBLE ASSETS (CONT)**

- b. Based on the intangible assets in service as of December 31, 2009, estimated amortization expense for each of the next five years and thereafter is as follows:

<u>Year ended December 31,</u>	<u>Amortization expenses</u>
2010	\$ 665
2011	665
2012	665
2013	603
2014	254
Thereafter	72
	<u>\$ 2,924</u>

- c. Changes in goodwill during the years 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Cost	\$ 6,323	\$ 5,104
Cumulative impairment	(324)	(324)
Balance, at January 1	\$ 5,999	\$ 4,780
Acquired - Bental - Note 1 d		1,185
Acquired -Limco		34
Effect of changes in exchange rate	(131)	-
Transfer of goodwill allocated to the propellers and parts businesses	(557)	-
As of December 31, 2009	<u>\$ 5,311</u>	<u>\$ 5,999</u>

**NOTE 9 - OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Employees and payroll accruals	\$ 3,395	\$ 3,635
Government authorities	240	608
Related parties	47	163
Advances from customers	288	525
Warranty provision	401	699
Sales rebates	141	290
Accrued royalties	349	178
Other accrued expenses	1,249	1,262
	<u>\$ 6,110</u>	<u>\$ 7,360</u>

U.S. dollars in thousands

**NOTE 10 - TRANSACTIONS WITH RELATED PARTIES**

## a. Transactions with TAT Industries:

	Year ended December 31,		
	2009	2008	2007
Management fees (1)	\$ 50	\$ 50	\$ 50
Other manufacturing costs	\$ -	\$ 4	\$ 5
Lease expenses (2)	\$ 335	\$ 329	\$ 323

- (1) According to the agreement between TAT and TAT Industries, TAT Industries will pay the Company annual management fee in the amount of \$50. In addition, the agreement states that in any case of selling or consuming of inventory items whose book value was fully depreciated on TAT Industries books, the Company will pay to TAT Industries half of the selling or consuming value. The management fees are recorded as a reduction under general and administration expenses.
- (2) During 2000, TAT entered into a lease agreement with TAT Industries for a period of 25 years. According to the agreement, TAT leases from TAT Industries the factory premises for an annual amount of approximately \$300, with an increase of 2% annually, subject to a revaluation based on market value every five years. TAT is entitled to a one-time right of termination of the agreement after 10 years.

During 2005, a revaluation of the lease agreement was prepared by a valuation consultant, determining the annual lease fee as \$329, based on which, the lease amount for year 2009 was adjusted to \$335. The lease fees are recorded under general and administration expenses.

## b. Balances with related parties:

	December 31,	
	2009	2008
TAT Industries - current account (1)	\$ 27	\$ 383

- (1) The balance mainly consists of current intercompany transactions between the Tat and Tat industries.

	Year ended December 31,		
	2009	2008	2007
c. Commissions to a company owned by certain former shareholders (see note 10d)	\$ -	\$ 69	\$ 442
Management fee to shareholders (see g and i below)	\$ 400	\$ 100	\$ 250
Rental and other services (see h below)	\$ -	\$ 170	\$ -
Payroll benefits of former principal owners (see e below)	\$ -	\$ 752	\$ 533

U.S. dollars in thousands

## NOTE 10 - TRANSACTIONS WITH RELATED PARTIES (CONT)

- d. The Company was committed to pay commissions to a company owned by certain of its shareholders for representing the heat exchangers division in North America. According to the agreement, the commissions were to be paid at a rate of 10% of the amount of inventories purchased in North America and 3% of the sales made in North America. The commissions were recorded as part of the cost of revenues and selling and marketing expenses, respectively. As of January 1, 2008, the Company incorporated a new subsidiary company, TAT Gal, to represent its heat exchangers division in North America, therefore the commission agreement with the affiliated company was terminated.
- e. As result of the change in control of TAT Industries' shareholders, during December 2007, TAT's Chairman of the Board of Directors (former principal owner), announced his resignation from his position, effective January 1, 2008, but he continued his employment, as a consultant to TAT, in accordance with his employment agreement with TAT, until April 2008. On September 12, 2008, TAT and the former Chairman of the Board of Directors signed an appendix to the employment agreement, according to which the employment relationship would be deemed terminated retroactively, as of January 1, 2008, and TAT would pay the former Chairman of the Board of Directors, a fixed amount of \$ 267 for all the benefits related to his employment.  
  
On May 19, 2008, TAT's Chief Executive Officer and Vice Chairman of the Board of Directors, announced his resignation from his position effective to that date. Accordingly, a provision for notice period of \$110 was recognized in the statement of income for the year ended December 31, 2008.
- f. The former Chairman of the Board of Directors and the former Vice Chairman of the Board of Directors of the Company were entitled each to a bonus of 2.5% of the annual consolidated operating income, in excess of \$500. Total bonus expenses were \$66 and \$522 in 2008 and 2007 and were recorded as part of the general and administrative expenses.
- g. A former shareholder of TAT provided TAT with management and consulting services in consideration of the lower of: (i) 3% of the consolidated operating income of the company in excess of \$500, or (ii) \$250. Consulting expenses were \$250 the year ended December 31, 2007 and were recorded a part of the general and administrative expenses. The management and consulting services agreement expired on December 31, 2007, pursuant to the sale by the shareholder of the majority of its holding in TAT, during December 2007.
- h. Bental is engaged in various agreements with its Non controlling interest and other related parties for the rental, maintenance and other services provided to it, in connection with its plant.
- i. Following the approval of TAT's audit committee and Board of Directors, on February 8, 2009, the general meeting of TAT approved a management agreement with the controlling shareholder of the Company, Isal, under special majority as required in approving transactions with a controlling shareholder. According to the agreement, in return for the management services rendered by Isal to TAT, TAT will pay Isal an amount of \$100 per quarter for the period commencing in October 2008. The agreement shall be in effect for a period of four years. Each party may terminate the management agreement by providing a four-month advance notice.

U.S. dollars in thousands

## NOTE 10 - TRANSACTIONS WITH RELATED PARTIES (CONT)

- j. On August 13, 2009, TAT's audit committee and Board of Directors approved the appointment of Mr. Avi Ortal as CEO of the subsidiary, Limco-Piedmont simultaneously with serving as CEO of KMN Capital (USA), Inc. Mr. Ortal relocated to the U.S. and devotes his time to serving as CEO of the said companies. Mr. Ortal receives a salary of approximately \$180 a year including a car and an insurance policy for his office as CEO of Limco-Piedmont. In the event of terminating the agreement by Limco-Piedmont without due cause, an advance notice of three months and an adjustment period of six months will be provided. According to Mr. Ortal's employment contract, Limco-Piedmont has undertaken to indemnify Mr. Ortal should he become subject to double taxation (in Israel and in the U.S.) for his work at Limco-Piedmont. Furthermore, Mr. Ortal will be entitled to a sum of approximately \$180 for his office as CEO of KMN Capital (USA), Inc. Limco-Piedmont will bear the actual overall employment costs of Mr. Ortal as CEO of Limco-Piedmont and as CEO of KMN Capital (USA), Inc. KMN Capital (USA), Inc. will reimburse Limco-Piedmont for 50% of said costs. Every six months, the audit committees of TAT and of KMN Capital Ltd. will meet to examine if no material change had occurred in said companies' share in Mr. Ortal's employment costs. If a change had occurred, the audit committees of TAT and of KMN Capital Ltd. will determine an updated ratio, as required by law. Simultaneously with said appointment, on said date, Mr. Ortal resigned from his position as director in the Company and in TAT.

## NOTE 11 - SHORT TERM BANK CREDIT AND LONG TERM LOANS:

- a. Terms of the loans:

	Currency	Interest Rate December 31, 2009	Years of Maturity	December 31, 2009
Long-term loan (1)	\$	3.30%	2011-2013	\$ 6,250
Long-term loan (2)	NIS	3.70%	2009-2014	1,443
Long-term loan (3)	NIS	3.0%	2009-2011	44
				7,737
Less - current maturities				374
				<u>\$ 7,363</u>

Required principal payments (including current maturities) as of December 31, 2009, were as follows:

Year	Amount
2010	\$ 374
2011	1,105
2012	1,213
2013	3,953
2014	1,092
	<u>\$ 7,737</u>



U.S. dollars in thousands

**NOTE 11 - SHORT TERM BANK CREDIT AND LONG TERM LOANS (CONT)**

- (1) Loan received from an Israeli bank in a total amount of \$6,250 out of which \$5,000 were received during year 2008 and additional \$1,250 were received during year 2009. The loan is to be repaid in four annual installments commencing 2011. This loan bears quarterly interest of Libor + 3.5%.
- (2) Loan received from an Israeli bank in the amount of \$1,400 to be repaid in four annual installments, commencing 2010. This loan bears annual interest of Prime + 1.2%.
- (3) Loan received from an Israeli bank Linked to the consumer price index

TAT provided certain guarantees and covenants, to secure long-term loans, see Note 13f.

b. Line of credit

On June 15, 2009, Limco-Piedmont signed with a financial institution on a framework agreement for a total credit of up to \$15,000, \$5,000 of this amount will stand for Limco and \$10,000 will stand for Piedmont. The credit bears interest rate of prime + 1.5%, and its utilization will be subject to compliance with financial covenants agreed between the parties. As of December 31, 2009, approximately \$1,060 of total credit was utilized by Piedmont.

**NOTE 12 - LONG-TERM EMPLOYEE-RELATED OBLIGATIONS**

Severance pay:

TAT's severance pay for its Israeli employees is calculated pursuant to Israeli Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. The liability is presented on the undiscounted basis. TAT records an expense for the net increase in its severance liability. TAT's liability for all of its Israeli employees is fully covered for by monthly deposits with severance pay funds, insurance policies, Mivtahim Social Insurance Institution Ltd. ("Mivtahim") and by an accrual.

The liability covered by deposits with Mivtahim is irrevocably transferred to Mivtahim. Accordingly, neither the amounts accumulated with Mivtahim, nor the corresponding liabilities for severance pay are reflected in the consolidated balance sheet. The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies and includes profits (or loss) accumulated through the balance sheet date.

Severance expense was \$371, \$441 and \$408 for the years ended December 31, 2009, 2008 and 2007, respectively.

Limco-Piedmont sponsors a 401(K) profit sharing plan covering substantially all of its employees. The plan permits the employer to contribute a discretionary amount for a plan year, which the employer designates as qualified non-elective contribution. Contributions to plan by Limco were \$193, \$204 and \$155 for the years ended December 31, 2009, 2008 and 2007, respectively. The Company expects to contribute approximately \$570 in 2010 to the pension funds and insurance companies in respect of its severance and pension pay obligations.

U.S. dollars in thousands

**NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES**

a. Commissions arrangements:

TAT is committed to pay marketing commissions to salesmen at a range of 1% to 12% of total sales contracts which were received through promotion and distribution carried out by them. Commission expenses were \$880, \$888 and \$490 for the years ended December 31, 2009, 2008 and 2007, respectively. The commissions were recorded as part of the selling and marketing expenses.

b. Royalty commitments:

- (1) TAT is committed to pay royalties to third parties through 2011 of between 1% and 2% of sales of products developed by the third parties or developed. Royalty expenses were \$30, \$45 and \$26 for the years ended December 31, 2009, 2008 and 2007, respectively. The royalties were recorded as part of the cost of revenues.
- (2) TAT is committed to pay royalties to third parties through 2012 of between 9% and 17% of sales of products developed by the third parties. Royalty expenses were \$324, \$214 and \$239 for the years ended December 31, 2009, 2008 and 2007, respectively. The royalties were recorded as part of the cost of revenues.
- (3) Bental is committed to pay royalties to the Israeli government on proceeds from the sales of products, in the research and development of which the Israeli government participated by way of grants. Under the terms of Bental's funding from the Office of the Chief Scientist, royalty payments are computed on the portion of sales from such products at a rate of 2% and 3.5%. The commitment to the Chief Scientist is limited to the amount of the received participation (dollar linked), with the addition of an annual interest rate based on Libor. As of December 31, 2009, the total amount of royalty bearing grants due by TAT to the Chief Scientist was approximately \$133.

c. Lease commitments:

Limco-Piedmont leases some of its operating and office facilities for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through January 2013. The monthly rental expense ranges from approximately \$0.1 to \$9. Certain leases contain renewal options as defined in the agreements. Lease expense (excluding related parties) totaled \$253, \$214 and \$330 for the years ended December 31, 2009, 2008, and 2007 respectively.

TAT leases its factory from the parent company; see Note 10(a), until 2020.

Bental leases an area of its plant from its related party for \$58 per annum, under a long-term lease until 2013.

U.S. dollars in thousands

## NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT)

## c. Lease commitments (Cont)

As of December 31, 2009, future minimum rental payments under non-cancelable operating leases are as follows:

2010	\$	671
2011		652
2012		483
2013		434
2014		428
Total		\$ 2,666

## d. Legal claims

- (1) During 2004, two former employees filed a claim against TAT and against an employment agency, alleging breach of contract and seeking compensation for salary delays and salary differences in the amount of \$279. After balance sheet date this matter was agreed in mediation and the Company paid \$20 to the former employees.
- (2) On April 8, 2009, a claim was filed with the District Court in Tulsa, Oklahoma, USA by a third party, in person and on behalf of others, against TAT, Limco-Piedmont and its directors. The claim is meant to represent the public shareholders of Limco-Piedmont and seeks monetary compensation for the plaintiffs as a result of the merger, mentioned in Note 3b(2), alleging, among other things, illegal management of the merger process and pricing and the non disclosure of significant information regarding the proposed merger. The parties reached a settlement whereby the plaintiffs will receive \$250 through an insurance policy of officers and directors in TAT in return for dismissing the claim. On November 12, 2009, the District Court in Tulsa approved the settlement.
- (3) On July 3, 2009, Limco-Piedmont signed an agreement settling a commercial dispute ("the agreement") with one of its suppliers. According to the agreement signed between the parties, Limco-Piedmont will serve as the supplier's licensed service center for performing repairs, renovation and servicing of aircraft components for a period of five years ending on May 31, 2014, in return for \$3,600. Prior to signing the agreement, Limco-Piedmont's engagement with said supplier was based on older agreements which were to end on May 31, 2011 and July 31, 2010. The fair value was based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers based on which Piedmont carried an amount of approximately \$1,550 as an expense for settling the dispute and the balance was carried as an intangible asset in the TAT's books and is amortized over the remaining contractual period.

U.S. dollars in thousands

NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT)

e. Guarantees:

- (1) Bental provides bank guarantees to third parties, in the ordinary course of business, mainly in order to secure certain advances from customers. The maximum credit risk for these guarantees totaled approximately \$ 473 as of December 31, 2009.
- (2) In order to secure TAT's liability to the Israel customs, the Company provided bank guarantee in the amount of \$36. The guarantee is linked to the consumer price index and is valid until April 2011.

f. Covenants and liens on assets:

- (1) In connection with its line of credit, Limco-Piedmont are obligated to meet certain financial covenants. Such covenants include requirements for minimal tangible net worth, maximum leverage, debt service coverage ratios and minimal borrowing base.
- (2) In order to secure bank loans in the amount of \$6,250, TAT granted a lien on a bank deposit of \$1,500, which is recorded as restricted cash in the balance sheet, as well as specific lien on Bental's shares held by TAT. In addition, TAT is obligated to certain covenants including (i) TAT's minimal shareholders' equity; (ii) TAT's shareholders' equity to its net assets ratio; (iii) Bental's debt to its operational profit ratio; (iv) TAT's debt to its share in Bental's net income ratio ; and (v) Bental has annual profit. As of December 31, 2009, TAT meets all covenants.
- (3) In order to secure bank loans in the amount of \$1,486, Bental granted floating liens on all of its property and assets, fixed lien on its unpaid share capital, goodwill and first priority liens on its fixed assets, checks and other trading instruments. In addition, Bental is obligated to certain covenants including: (i) minimal shareholders' equity; (ii) Debt to EBITDA ratio and (iii) Bental's shareholders' equity to its net assets ratio. As of December 31, 2009, Bental meets all covenants
- (4) A lien on Bental Approved Enterprise has been registered in favor of the State of Israel (see Note 16c below).
- (5) In order to secure a guarantee Limco-Piedmont provided a guarantee to FAvS, on the amount of \$7,000 and for the period of up to 2 years, Limco-Piedmont granted a lien on a bank deposit of \$3,500, which is recorded as restricted cash in the balance sheet.

U.S. dollars in thousands

**NOTE 14 - SHAREHOLDERS' EQUITY**

- a. TAT's ordinary shares confer upon their holders voting rights, the right to receive dividends, if declared, and any amounts payable upon the dissolution, liquidation or winding up of the affairs of TAT.
- b. On August 10, 2004, TAT entered into an investment agreement, according to which the investor purchased 857,143 Ordinary shares of NIS 0.9 par value of TAT, and was granted a warrant to purchase 500,000 Ordinary shares of NIS 0.90 par value at an exercise price of \$8.50 per share, exercisable for 66 months from the date of grant. Total cash received was \$6,000.

In addition, the investor and TAT entered into a credit line agreement, under which the investor made a line of credit available to TAT in the amount of up to \$2,000. The amount of the credit withdrawn from the investor shall not be less than \$1,000. The withdrawn credit bears interest at an annual rate of 5%, in addition to an annual handling fee of 0.5% of the credit line amount. The withdrawn credit will be settled in four equal payments, no later than 66 months from the date of the agreement.

TAT recorded the fair value of the credit line, which amounted to \$265, as deferred charges, which were amortized throughout the term of the credit line agreement. As such, the total proceeds received for the issuance of shares and warrants, consisting of cash and a provision of a credit line, amounted to \$6,265 from which issuance expenses in the amount of \$273 were deducted. In addition, a consulting agreement was entered into with the investors, see Note 10e.

On September 5, 2006, TAT notified the investor on the cancellation of the credit line, which was not utilized. As a result, TAT recorded the unamortized portion of the deferred charge, amounted to \$149 to financial expenses.

On February 21, 2007, the investor exercised its warrant to purchase 500,000 Ordinary shares of NIS 0.9 par value each, in accordance with the investment agreement, for an exercise price of \$6.94 per share, which reflected the base exercise price of \$8.5 reduced by the effect of dividends during the period the warrants were outstanding.

- c. On July 2, 2009, TAT completed a merger with Limco-Piedmont. As part of the merger, TAT acquired the entire remaining shares of Limco-Piedmont held by Limco-Piedmont's public shareholders in exchange for 2,520,372 newly issued shares of TAT, see also note 3b(2).
- d. Treasury purchase plan

On March 11, 2009 and on August 13, 2009, TAT's board of directors authorized its management to enter into an engagement with Oppenheimer Israel Investment House for the blind trust purchase of TAT's shares under rule 10b5-1 of the Securities Exchange Act of 1934.

The first purchase plan (from March 11, 2009) was terminated on March 26, 2009, under which TAT purchased 4,650 shares for a cumulative amount of \$ 26.

U.S. dollars in thousands

## NOTE 14 - SHAREHOLDERS' EQUITY (CONT)

The second purchase plan (from August 13, 2009) permitted for Oppenheimer Israel to purchase shares of TAT during trade on a foreign stock exchange at a scope of up to \$ 2 million in a period of six months from August 13, 2009 and at a price not exceeding \$ 9 per share. As of December 31, 2009, 253,390 shares were purchased under the second plan, representing approximately 2.8% of the Company's share capital in consideration of approximately \$ 2,000 (an average of \$ 7.9 per share).

The purchased shares under both plans became dormant as defined in the Israeli Companies Law.

A reconciliation of opening and closing balances of the number of ordinary shares (in thousands) is presented below:

	2009	2008	2007
Balance outstanding at beginning of year	6,553	6,543	6,043
Increase of shares			500
Increase of shares to Non controlling interest	2,520		
Exercise of options by employees		10	
Purchase to treasury shares	(258)		
Balance outstanding at end of year	8,815	6,553	6,543

## e. Stock option plans

- (1) In January 1999, TAT adopted a stock option plan for its employees, directors and officers, whereby options to purchase up to 500,000 Ordinary shares (out of which 402,500 stock options were granted to executives) were to be granted, at an exercise price of \$1.625 per share (which equaled the market price on the date of grant). All of the options have been granted under the above plan. Under the terms of the plan, the options were fully vested as of the grant date. As of December 31, 2008, 7,500 were still outstanding. These options expired in January 2009.

The following table is a summary of the activity of TAT's stock Option plan:

	Year ended December 31,					
	2009		2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	7,500	\$ 1.625	17,500	\$ 1.625	17,500	\$ 1.625
Exercised	-	-	(10,000)	1.625	-	-
Forfeited	-	-	-	-	-	-
Expired	(7,500)	1.625	-	-	-	-
Outstanding at the end of the year	-	\$ -	7,500	\$ 1.625	17,500	\$ 1.625
Exercisable options	-	\$ -	7,500	\$ 1.625	17,500	\$ 1.625

U.S. dollars in thousands

## NOTE 14 - SHAREHOLDERS' EQUITY (CONT)

## e. Stock option plans (Cont)

The total intrinsic value of options exercised during the years ended December 31, 2008 was \$50, based on the Company's average stock price at the exercise date.

- (2) On August 14, 2008, TAT's Board of Directors approved the grant of 65,477 unregistered options of Series A, B and C to its Chief Executive Officer. Each options Series A, B and C vest over two, three and four years commencing May 19, 2008, respectively, and expires three years after vesting. Each Series A, B and C option can be exercised into one Ordinary share 0.9 NIS par value, for an exercise price of \$6.15 (adjusted for dividend distribution and other equity changes as defined in the option grant terms). Alternatively, the Chief Executive Officer can opt to receive TAT's Ordinary shares based on the value of the appreciation over the exercise price.

The fair value of the stock options granted at the grant date, is \$2.69, \$2.9 and \$3.15, for Series A, B a C, respectively, based on the Black-Scholes option-pricing model with the following weighted average assumptions:

	<u>Series A</u>	<u>Series B</u>	<u>Series C</u>
Number of options	21,826	21,826	21,825
Weighted average expected stock price volatility	60.05%	55.96%	54.57%
Weighted average expected option life (in years)	3.25	4.25	5.25
Average risk free interest rate	2.72%	2.94%	3.15%
Dividend yield	0%	0%	0%

The expected volatility is based on the historical volatility of the Company's stock. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected term of the stock options granted. The expected life assumption is based on assumption related to the options' vesting schedules and life terms. The dividend yield is derived from the absence of formal dividend distribution plan.

U.S. dollars in thousands

## NOTE 14 - SHAREHOLDERS' EQUITY (CONT)

## e. Stock option plans (Cont)

The following table is a summary of the activity of TAT's stock Option plan:

	Year ended December 31			
	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	65,477	\$ 6.15		
Granted	-	-	65,477	\$ 6.15
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding at the end of the year	65,477	\$ 6.15	65,477	\$ 6.15
Exercisable options	-	-	-	-

Compensation expenses attributable to outstanding stock options were \$63 and \$47 for the years ended December 31, 2009 and 2008. Compensation expense is recognized in the statement of income as an operating expense based on the fair value of the option over the requisite service period. As of December 31, 2009, the total recognized compensation cost related to non-vested stock awards was \$110 and the weighted average period over which the cost is expected to be recognized is approximately 4 years.

- (3) Limco Inc. entered into a share based compensation agreement with its Chief Executive Officer ("CEO") during August, 2005. The compensation agreement is made up of 45,000 Phantom Stock options and stock options to be issued upon the completion of an IPO by Limco Inc. The Phantom Stock options had a base exercise price of \$6.37. At the date of exercise, the CEO received a cash payment for the difference between the exercise price and the average price of TAT's stock price for the 60 days preceding the exercise date. During the year ended December 31, 2007, Limco Inc. recorded expenses of \$325. As of December 31, 2007, all of the Phantom Stock options had been exercised.
- (4) Effective July 19, 2007, Limco Inc. established an Incentive Compensation Plan, ("The 2007 Plan"), under which, Limco Inc. may issue options to purchase 600,000 shares of Common stock. Pursuant to the plan during 2007, 404,250 options were granted, with an exercise increment for each option of \$11. The options vest in three equal annual installments, except for 66,000 options that vest in four equal semi-annual installments. Options generally expire five to ten years from date of grant. During 2008 additional 60,000 options were granted with an exercise increment for each option of \$5.88. The weighted average grant date fair value of the stock options granted under this 2007 plan during the years ended December 31, 2008 and 2007 was \$5.38 and \$2.63, respectively.



U.S. dollars in thousands

## NOTE 14 - SHAREHOLDERS' EQUITY (CONT)

## e. Stock option plans (Cont)

- (5) On February 25, 2009, Limco-Piedmont's board of directors decided to grant options to directors and managers to purchase 230,000 Common stock of Limco-Piedmont ("The 2009 plan"). The optionees included the Company's Chairman, CEO and a director in the Company who also serve as directors in Limco-Piedmont who each received 30,000 options. The exercise increment for each option is \$ 2.16 and its value based on the Black & Scholes option pricing model is \$ 1.06.

The following table summarizes Limco's weighted average assumptions used in the valuation of options (granted under 2007 plan and 2008 plan) for the years ended December 31, 2009 and 2008, respectively:

	2009	2008
Weighted average expected stock price volatility	56%	56%
Weighted average expected option life (in years)	3.5	3.5
Average risk free interest rate	2.87%	2.87%
Dividend yield	0%	0%

The expected volatility is based on the historical volatility of the Company's stock. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected term of the stock options granted. The expected life assumption is based on assumption related to the options' vesting schedules and life terms. The dividend yield is derived from the absence of formal dividend distribution plan.

Limco uses the Black-Scholes option pricing model to determine the weighted average fair value of options. The volatility factor used in the Black-Scholes option pricing model is based on historical stock price fluctuations. Due to the relative short period of the time Limco has been public TAT has estimated a 0% forfeiture rate. The expected term of options is based on the simplified method as allowed under and ASC 718-10-S99 and 110 issued by the SEC. The simplified method assumes the option will be exercised midway between the vesting date and the contractual term of the option. Limco is able to use the simplified method as the options qualify as "plain vanilla" options as defined by ASC 718-10-S99 and since Limco does not have sufficient historical exercise data to provide a reasonable basis to estimate expected term. Expected dividend yield is based upon Limco's historical and projected dividend activity and the risk free interest rate is based upon US Treasury rates appropriate for the expected term of the options.

- (6) Upon the completion of the merger between TAT and Limco-Piedmont, as detailed in Note 3(b)(2) above, all options granted under Notes 14 (e) 4&5 above were cancelled. Upon the cancellation date, Limco-Piedmont recorded expenses totaling \$ 542 which as of the date of cancellation has not yet been recorded as an expense in the financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 14 - SHAREHOLDERS' EQUITY (CONT)

## e. Stock option plans (Cont)

Compensation expenses attributable to the said outstanding stock options were \$904 (including the above \$542 expense) and \$175 for the years ended December 31, 2009 and 2008, respectively. Compensation expense is recognized in the statement of income as an operating expense based on the fair value of the option over the requisite service period.

A summary of Limco-Piedmont's Option plans activity for the years ended December 31, 2009 and 2008, is presented below:

	<u>Number of options (in thousands)</u>	<u>Weighted average exercise price</u>	<u>Weighted average contractual life remaining in years</u>	<u>Aggregate intrinsic value (1) (in thousands)</u>
Outstanding at January 1, 2007	--			
Granted	404	\$ 11.00	4.5	\$ 570
Forfeited				
Outstanding at January 31, 2007	404	\$ 11.00	4.5	\$ 570
Granted	60	\$ 5.88		
Forfeited	(153)	\$ 11.00		
Outstanding at December 31, 2008	311	\$ 10.01	4.37	\$ -
Granted	230	\$ 2.25		
Forfeited	(541)	\$ 6.71		
Outstanding at December 31, 2009	-	-	-	-
Exercisable at December 31, 2009	-	\$ -	-	\$ -

- (1) The intrinsic value of a stock option is the amount by which the market value of the underlying stock on December 31, 2008 exceeds the strike price of the option. There was no aggregate intrinsic value at December 31, 2008 as Limco stock price of \$3.03 on December 31, 2008 was below the exercise price of all of the outstanding stock options. The aggregate intrinsic value at December 31, 2007 was \$570.

## f. Dividends

On September 2, 2007, TAT's Board of Directors declared a dividend in the amount of \$2,617, or \$0.40 per share, for all of the shareholders of TAT at the effective date - October 16, 2007. The dividend was fully paid on November 6, 2007.

On March 11, 2009, TAT's Board of Directors declared a cash dividend in the total amount of \$3,500, or \$0.55 per share, for all of the shareholders of Company at the effective date - March 29, 2009. TAT paid the dividend on April 8, 2009.

On March 11, 2009, Bental's Board of Directors approved the distribution of cash dividend in the total amount of \$3,150. The dividend was paid on April 5, 2009, out of which TAT received \$2,205.

U.S. dollars in thousands

**NOTE 14 - SHAREHOLDERS' EQUITY (CONT)**

On November 12, 2009, TAT's Board of Directors declared a cash dividend in the total amount of \$2,660 or \$0.38 per share, for all of the shareholders of the Company at the effective date November 23, 2009. TAT paid the dividend on December 7, 2009.

On November 24, 2009, Bental's Board of Directors approved the distribution of cash dividend in the total amount of \$1,297. The dividend was paid on December 7, 2009, out of which TAT received \$908.

**NOTE 15 - NET INCOME PER SHARE**

The following table sets forth the computation of basic and diluted net income per share:

	Year ended December 31,		
	2009	2008	2007
Numerator:			
Net income attributed to TAT	\$ 1,753	\$ 4,268	\$ 31,979
Denominator:			
Weighted average number of basic shares outstanding during the year	7,893,639	6,546,055	6,344,041
Effect of dilutive securities:			
Stock options and warrants	-	20,194	63,463
Denominator for diluted net income per share	7,893,639	6,566,249	6,407,504

The weighted average number of outstanding options excluded from the calculation of diluted net earnings per share, due to their anti dilutive effect was 65,477 for the year ended December 31, 2009, 9,298 for the year ended December 31, 2008 and none for the year ended December 31, 2007.

**NOTE 16 - INCOME TAXES****a. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985**

In accordance with the above law results for tax purposes are measured and reflected in real terms in accordance with the changes in the Israeli Consumer Price Index (CPI). Under the Inflationary adjustments law (Amendment No. 20, 2008, hereafter – "the amendment"), that was enacted in the Israeli Parliament on February 26, 2008, the provisions of the Inflationary adjustments law will no longer apply to TAT in 2008 and thereafter. The amendment specifies transitional provisions regarding the discontinuance of the provisions of the Inflationary adjustments law that have applied to TAT through the end of 2007.

U.S. dollars in thousands

**NOTE 16 - INCOME TAXES (CONT)**

- b. Tax benefits under Israel's Law for the Encouragement of Industry (Taxation), 1969

The Company has a status of an "Industrial company" as defined in the Industry law. In accordance with this status and related regulations, the Company is entitled to claim for tax purposes increased depreciation deductions in respect for equipment used for its industrial activities. In accordance with "special accelerated depreciation regulations" (2008), companies that most of their activities are "approved activities" as defined in the Industrial law are entitled to claim the accelerated depreciation expenses for machinery and equipment bought between June 1, 2008 to May 31, 2009.

- c. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the Law"):

Some facilities of the Israeli companies in Israel have been granted approved enterprise status under the above law.

The main tax benefits available are:

Investment Grants

In respect of some of the Israeli companies' facilities the companies are entitled to investment grants given in certain rates between 10% to 25% and in accordance with the location of these facilities.

In respect of income derived from the approved enterprise, the Israeli companies are entitled to reduced tax rates during a period of up to seven years from the year in which such enterprise first earn taxable income (limited to twelve years from commencement of production or fourteen years from the date of approval, whichever is earlier).

Income derived from the approved enterprise is tax exempt during the first two years of the seven year tax benefit period as above, and is subject to a reduced tax rate not exceeding 25% during the remaining years of benefits.

For a consolidated company, a plan for the expansion of its facilities was approved as an "Approved plan" under the Law. Accordingly, the income derived from this plan will be subject to the above mentioned tax benefits.

In the event of distribution of a cash dividend from income which was tax exempt as above, the Company would have to pay the 25% tax in respect of the amount distributed. Company has policy not to distribute cash dividends from such exempt income. As of December 31, 2009, the Company had accumulated a total amount of \$7.5 million of exempt income.

U.S. dollars in thousands

NOTE 16 - INCOME TAXES (CONT)

Conditions for the entitlement of benefits

The above mentioned benefits are subject to the fulfillment of the terms specified in the Law, the related regulations and the approval plans as specified above. Failure to fulfill these terms might result the cancellation of the tax benefits (all or some), in which case the Company will be required to repay all benefits including interest and fines. Management estimates that the Israeli companies comply with all terms as mentioned above.

d. Reduction of Israeli corporate tax rate

The rate of the Israeli corporate tax is as follows: 2008 - 27%, 2009 - 26%, 2010 - 25%. In July 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%. The effect of the abovementioned change on the financial statements is immaterial.

e. U.S. subsidiaries

U.S. subsidiaries are taxed based on federal and state tax laws. The effective tax rate for 2009, 2008, and 2007 was 38%, 41.48% and 35.6%, respectively.

f. Tax assessments

TAT's income tax assessments are considered final through 2005.

Bental income tax assessments are considered final through 2006.

Limco-piedmont income tax assessments are considered final through 2006.

TAT-GAL which was incorporated in 2008 has not received final tax assessment yet.

The Company and its parent company file a consolidated tax report for the Israeli tax authorities. Accordingly, each one the companies is entitled to use its tax losses (resulted from the first year of consolidated tax report) against taxable income of the other company and subject to certain limitations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 16 - INCOME TAXES (CONT)

## g. Income tax reconciliation:

A reconciliation of the theoretical tax expense assuming all income is taxed at the statutory rate to income taxes as reported in the statements of income:

	Year ended December 31,		
	2009	2008	2007
Income before income taxes as reported in the statements of income	\$ 1,367	\$ 6,888	\$ 35,962
Statutory tax rate in Israel	26%	27%	29%
Theoretical tax expenses	355	1,860	10,429
Increase (decrease) in income taxes resulting from:			
Tax adjustment for foreign subsidiaries subject to a different tax rate	402	671	532
Reduced tax rate on income derive from "Approved Enterprises" plans	(20)	(268)	-
Permanent differences	155	-	-
Reduced tax rate on capital gain from sale of shares of subsidiary company	-	-	(6,400)
Difference in basis of measurement for financial reporting and income tax purposes	-	(636)	(870)
Tax in respect of prior years	*(1,609)	77	(535)
Non-deductible expenses	(48)	91	56
Income taxes as reported in the statements of income	\$ (765)	\$ 1,795	\$ 3,212

\* Income taxes benefit relating to prior years is a result of an approved enterprise certificate granted to Bental by the Israeli tax authorities in 2009. At the time only when receiving such approval was Bental able to recognize certain tax benefit relating to 2008.

## h. Income before income taxes is comprised as follows:

	Year ended December 31,		
	2009	2008	2007
Domestic (Israel)	\$ 4,222	\$ 2,263	\$ 27,897
Foreign (United States)	(2,855)	4,625	8,065
	\$ 1,367	\$ 6,888	\$ 35,962

U.S. dollars in thousands

## NOTE 16 - INCOME TAXES (CONT)

- i. Income taxes included in the statements of income:

	Year ended December 31,		
	2009	2008	2007
Current:			
Domestic (Israel)	\$ 1,163	\$ 73	\$ 671
Foreign (United States)	(1,188)	1,845	2,862
	(25)	1,918	3,533
Deferred:			
Domestic (Israel)	(51)	(201)	(330)
Foreign (United States)	920	78	9
	869	(123)	(321)
Previous years			
Domestic (Israel)	(1,609)	-	-
Foreign (United States)	-	-	-
	(1,609)	-	-
	<u>\$ (765)</u>	<u>\$ 1,795</u>	<u>\$ 3,212</u>

\* Income taxes benefit relating to prior years is a result of an approved enterprise certificate granted to Bental by the Israeli tax authorities in 2009. At the time only when receiving such approval was Bental able to recognize certain tax benefit relating to 2008.

- j. Deferred income taxes:

Deferred income taxes reflect the net tax effects of 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 TAT's deferred tax liabilities and assets are as follows:

	December 31,	
	2009	2008
Deferred tax assets (liabilities):		
Allowance for doubtful accounts	\$ 846	\$ 72
Unrealized gains	237	375
Provisions for employee benefits and other temporary differences	597	789
Inventory	712	--
Tax loss carryforwards	--	238
Deferred tax assets – short-term- other accounts receivables	<u>\$ 2,392</u>	<u>\$ 1,474</u>
Provisions for employee benefits and other temporary differences- Deferred tax assets – Long-term	\$ 220	--
Other temporary differences Deferred tax Liabilities – Short-term- other accounts payable	<u>\$ 19</u>	<u>--</u>
Fixed assets and intangible assets	(1,704)	(1,086)
Gain from sale of the propellers & parts businesses	(1,332)	--
Deferred tax Liabilities - Long-term	<u>\$ (3,036)</u>	<u>\$ (1,086)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 16 - INCOME TAXES (CONT)

As of December 31, 2009, TAT did not provide a valuation allowance in respect of deferred tax assets, since management currently believes that it is more likely than not that the deferred tax asset will be realized in the future.

TAT does not intend to distribute earnings of a foreign subsidiary aggregating \$14,834 as of December 31, 2009, and accordingly, no deferred tax liability has been established relative to these earnings. If these amounts were not considered permanently reinvested, a deferred tax liability would have been required.

- k. Effective January 1, 2007, TAT adopted a new pronouncement which clarify the accounting "Accounting for Uncertainty in Income Taxes, an Interpretation of ASC 740" ("the pronouncement"). The pronouncement clarifies the accounting for uncertain tax positions. The pronouncement prescribes a comprehensive model for how companies should recognize, measure, present and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under the pronouncement, tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The pronouncement also revises disclosure requirements to include an annual tabular rollforward of unrecognized tax benefits. TAT was required to apply the provisions of the pronouncement to all tax positions upon initial adoption with any cumulative effect adjustment to be recognized as an adjustment to retained earnings.

During 2008, Limco was audited by the Internal Revenue Service for the tax year ended December 31, 2006. It was the determination of the Internal Revenue Service that Limco had deemed dividend distributions to TAT related to interest expense charged during 2005, 2006 and 2007. Interest and penalties totaling \$43 have been charged to income tax expense during the year ended December 31, 2008. The audit is now closed and Limco believes that the only tax years open for audit are the years ended December 31, 2007 through December 31, 2009.

A reconciliation of the beginning and ending amount of recognized provision, as a result of a new pronouncement which clarify the accounting "Accounting for Uncertainty in Income Taxes, an Interpretation of ASC 740", is as follows:

	<u>Amount</u>
Balance at January 1, 2008	\$ 248
Additions for tax positions of prior years	189
Settlements with tax authorities	<u>(437)</u>
Balance at December 31, 2008	<u>-</u>
Additions for tax positions of prior years	-
Settlements with tax authorities	<u>-</u>
Balance at December 31, 2009	<u>\$ -</u>



U.S. dollars in thousands

**NOTE 17 - SEGMENT INFORMATION**

**a. Segment Activities Disclosure:**

As of December 1, 2009, following the completion of the investment agreement signed between TAT and FAvS, see Note 1(h), pursuant to which Piedmont acquired 37% of the Class B Common Stock of FAvS in return for Piedmont's propeller and parts businesses, the Company began reporting its operations based on three operating segments:

- The Original Equipment Manufacturing ("OEM") segment in the field of heat transfer products referring mainly to the following areas of activity: (a) planning, developing, manufacturing and marketing a wide range of various types of heat transfer products used in mechanical and electronic systems for the military and commercial aircraft industries; (b) developing and manufacturing cooling and environmental control systems used in aircrafts, military facilities, tents and armored vehicles; (c) manufacturing a wide range of aircraft accessories such as fuel systems, turbines and airborne pneumatic components.
- The OEM of electrical motion systems segment referring mainly to planning and manufacturing electrical motion system protection and custom made electro-mechanical systems used in civilian and military systems.
- The Maintenance, Repair, Overhaul ("MRO") segment referring to rendering MRO services for overhaul aircraft systems installed mainly in commercial aircrafts. The MRO services consist of heat transfer products, APU's, landing gear, propellers and related control accessories.

TAT evaluates segment performance based on revenue and operating income. The operating income reported in TAT's segments excludes corporate and other unallocated amounts. Although such amounts are excluded from the business segment results, they are included in reported consolidated earnings. Corporate and unallocated amounts include executive level expenses and certain expenses related to accounting and finance, human resources and information technology departments.

During 2008 through December 1, 2009, TAT managed also a fourth segment – the Part segment, that focused on sales of parts of APU's, propellers, landing gears and other aviation components.

The OEM of electrical motion systems segment was added with the consolidation of Bental, following its acquisition on August 18, 2008 (see note 3(a)).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 17 - SEGMENT INFORMATION (CONT)

## b. Segments statement operations disclosure:

The following financial information is the information that management uses for analyzing the segment results. The figures are presented in consolidated method as presented to management.

Cost related to selling and marketing and general and administrative for MRO and Parts are allocated based on revenues. This was a change made in 2008. The segment results for 2007 related to MRO and Parts have been restated to conform with this allocation method.

The following financial information is a summary of the operating income of each operational segment:

	Year ended December 31, 2009						
	OEM- Heat Transfer Products	OEM - Electric Motion Systems	MRO	Parts (*)	Corporate	Elimination from inter companies sale	Consolidated
Revenues							
Sale of products	\$ 28,617	\$ 11,321	\$ -	\$ -	\$ -	\$ (5,187)	\$ 34,751
Services and other			42,283	6,057			48,340
Total revenues	28,617	11,321	42,283	6,057		(5,187)	83,091
Cost of revenues	19,809	8,021	37,900	5,879	-	(4,714)	66,895
Gross profit	8,808	3,300	4,383	178	-	(473)	16,196
Research and development expenses	408	272	-	-	-	-	680
Selling and marketing expenses	1,063	629	1,668	359	-	-	3,719
General and administrative expenses	3,767	1,176	6,196	516	3,324	-	14,979
Capital gain			(4,400)				(4,400)
Operating income (loss)	\$ 3,570	\$ 1,223	\$ 919	\$ (697)	\$ (3,324)	\$ (473)	\$ 1,218

(\*) For the period of January 1 through November 30, 2009.

## TAT TECHNOLOGIES LTD

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 17 - SEGMENT INFORMATION (CONT)

## b. Segments statement operations disclosure (cont)

	Year ended December 31, 2008						
	<u>OEM- Heat Transfer Products</u>	<u>OEM - Electric Motion Systems</u>	<u>MRO</u>	<u>Parts</u>	<u>Corporate</u>	<u>Elimination from inter companies sale</u>	<u>Consolidated</u>
Revenues							
Sale of products	\$ 27,857	\$ 9,758	\$ -	\$ -	\$ -	\$ (5,891)	\$ 31,724
Services and other			54,276	17,289			71,565
Total revenues	27,857	9,758	54,276	17,289	-	(5,891)	103,289
Cost of revenues	21,058	7,845	43,664	13,922	-	(5,926)	80,563
Gross profit	6,799	1,913	10,612	3,367	-	35	22,726
Selling and marketing expenses	1,364	250	2,094	661	-	-	4,369
General and administrative expenses	4,342	713	3,466	1,024	2,862	-	12,407
Operating income (loss)	\$ 1,093	\$ 950	\$ 5,052	\$ 1,682	\$ (2,862)	\$ 35	\$ 5,950

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 17 - SEGMENT INFORMATION (CONT)

## b. Segments statement operations disclosure (cont)

	Year ended December 31, 2007					
	OEM- Heat Transfer Products	MRO	Parts	Corporate	Eliminations from inter Companies sales	Consolidated
Revenues						
Sale of products	\$ 23,489	\$ -	\$ -	\$ -	\$ (4,561)	\$ 18,928
Services and other		49,392	20,384			69,776
Revenues	\$ 23,489	\$ 49,392	\$ 20,384	-	\$ (4,561)	\$ 88,704
Cost of revenues	17,891	35,205	16,603	-	(4,492)	65,207
Gross profit (loss)	5,598	14,187	3,781	-	(69)	23,497
Selling and marketing expenses	1,106	2,088	525	-	-	3,719
General and administrative expenses	3,540	1,988	455	5,012	-	10,995
Operating income (loss)	\$ 952	\$ 10,111	\$ 2,801	\$ (5,012)	\$ (69)	\$ 8,783

U.S. dollars in thousands

## NOTE 17 - SEGMENT INFORMATION (CONT)

- c. The following financial information identifies the assets to segment

As of December 31, 2009						
	OEM – Heat Transfer Products	OEM - Electric Motion Systems	MRO	Parts	Corporate	Consolidated
Assets	\$ 38,354	\$ 13,888	\$ 51,220	\$ -	\$ 21,029	\$ 124,491
Depreciation and amortization	1,050	507	1,413	-	-	2,970
Capital investments	846	960	3,052	-	-	4,858
Goodwill	-	1,055	4,256	-	-	5,311

  

As of December 31, 2008						
	OEM – Heat Transfer Products	OEM - Electric Motion Systems	MRO	Parts	Corporate	Consolidated
Assets	\$ 39,822	\$ 19,170	\$ 39,480	\$ 7,118	\$ 30,340	\$ 135,930
Depreciation and amortization	1,020	1,164	1,169	-	-	3,353
Capital investments	1,095	767	1,696	-	-	3,558
Goodwill	-	1,185	4,814	-	-	5,999

  

As of December 31, 2007						
	OEM – Heat Transfer Products	OEM - Electric Motion Systems	MRO	Parts	Corporate	Consolidated
Assets	\$ 40,704	-	\$ 33,299	\$ 3,522	\$ 35,882	\$ 113,407
Depreciation and amortization	906	-	1,123	2	-	2,031
Capital investments	3,404	-	2,884	15	-	6,303
Goodwill	-	-	4,780	-	-	4,780

U.S. dollars in thousands

## NOTE 17 - SEGMENT INFORMATION (CONT)

- d. The following presents total revenues, based on the location of the end customers, for the years ended December 31, 2009, 2008 and 2007 and long-lived assets as of those dates.

	2009		2008		2007	
	Total revenues	Long-lived assets	Total revenues	Long-lived assets	Total revenues	Long-lived assets
Sale of products						
Israel	\$ 19,613	\$ 9,312	\$ 17,077	\$ 9,164	\$ 7,369	\$ 6,758
Asia	-	-	1,173	-	111	-
North America	7,554	-	8,233	-	7,793	-
Europe	5,788	-	5,241	-	3,593	-
Other	1,796	-	-	-	62	-
	<u>\$ 34,751</u>	<u>\$ 9,312</u>	<u>\$ 31,724</u>	<u>\$ 9,164</u>	<u>\$ 18,928</u>	<u>\$ 6,758</u>
Services						
Israel	\$ 95	\$ -	\$ -	\$ -	\$ 14	\$ -
Asia	-	-	3,324	-	2,444	-
North America	34,043	5,151	49,239	6,023	48,761	5,169
Europe	10,767	-	14,269	-	14,891	-
Other	3,435	-	4,733	-	3,666	-
	<u>\$ 48,340</u>	<u>\$ 5,151</u>	<u>\$ 71,565</u>	<u>\$ 6,023</u>	<u>\$ 69,776</u>	<u>\$ 5,169</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 18 - SELECTED STATEMENTS OF INCOME DATA

		Year ended December 31,		
		2009	2008	2007
<b>a.</b>	Financial income (expenses), net:			
	Financial income:			
	Foreign currency translation adjustments	\$ 1,541	\$ 1,257	\$ 305
	Interest on cash equivalents, short-term bank deposits and others	650	1,420	1,402
		2,191	2,677	1,707
	Financial expenses:			
	Bank charges	(214)	(264)	(142)
	Interest on long-term loans	(206)	(143)	(640)
	Foreign currency translation adjustments	(1,462)	(943)	(220)
	Interest expenses on call option to Non controlling interest	(72)	(28)	-
	Others	(88)	(125)	(4)
		(2,042)	(1,503)	(1,006)
		\$ 149	\$ 1,174	\$ 701
		Year ended December 31,		
		2009	2008	2007
<b>b.</b>	Other income (expenses), net:			
	Gain from sale of shares and decrease in holding of subsidiary company	\$ -	\$ -	\$ 26,375
	Gain (Loss) on sale of marketable securities classified as available-for-sale		(236)	34
	Other income	-	-	69
		\$ -	\$ (236)	\$ 26,478

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 19 - SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION

	<u>Warranty provision</u>	<u>Inventory Reserve</u>	<u>Account Receivable</u>
<b>Reserves and Allowances</b>			
Balance, as of January 1, 2007	\$ 776	\$ 1,644	\$ 280
Additions	8	124	10
Write-offs, net of recoveries	-	-	(135)
Balance, as of December 31, 2007	784	1,768	155
Additions	215	268	180
Write-offs, net of recoveries	(300)	-	(181)
Balance, as of December 31, 2008	699	2,036	154
Additions	71	273	2,394
Write-offs, net of recoveries	(369)	-	(188)
Balance, as of December 31, 2009	<u>\$ 401</u>	<u>\$ 2,309</u>	<u>\$ 2,360</u>

## NOTE 20 - SUBSEQUENT EVENT

In April 2010, the Company was notified by FAvS that one of the customers of the propeller MRO business, which had been contributed to FAvS by Piedmont, was requesting reimbursement for damages purportedly caused to certain propellers. FAvS in turn, advised the Company that it wanted the Company to reimburse it for any liability FAvS might incur to such customer. This controversy is in its early stage and it is unclear at this point what liability, if any, the Company might eventually incur. As of the date hereof, the Company has provided a reserve of \$350 with respect to this potential expense.



## 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.

TAT TECHNOLOGIES LTD.

By: /s/ Yaron Shalem

\_\_\_\_\_  
Yaron Shalem  
Chief Financial Officer  
(Principal Accounting Officer)

Date: June 28, 2010

**List of Subsidiaries of the Registrant**

We own the following significant subsidiaries:

1. Limco-Piedmont Inc., a 100%-owned Delaware subsidiary.
  2. Limco Airepair Inc., a wholly-owned Delaware subsidiary of Limco-Piedmont Inc.
  3. Piedmont Aviation Component Services LLC, a North Carolina limited liability company, wholly-owned subsidiary of Limco-Piedmont Inc.
  4. TAT-GAL Inc., a wholly-owned California subsidiary.
  5. Bental Industries Ltd., a 70%-owned Israeli subsidiary.
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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

**Pursuant to Rule 13a-14(a) and 15d-14(a)**

**Under the Securities Exchange Act of 1934, as Amended**

I, Shmuel Fledel, certify that:

1. I have reviewed this annual report on Form 20-F of TAT Technologies 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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-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 registrant 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 registrant, 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;

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(c) Evaluated the effectiveness of the registrant'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 registrant'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 registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: June 28, 2010

/s/ Shmuel Fledel

Shmuel Fledel

Chief 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) and 15d-14(a)**

**Under the Securities Exchange Act of 1934, as Amended**

I, Yaron Shalem, certify that:

1. I have reviewed this annual report on Form 20-F of TAT Technologies 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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13(a)-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 registrant 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 registrant, 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;

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(c) Evaluated the effectiveness of the registrant'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 registrant'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 registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: June 28, 2010

/s/ Yaron Shalem

Yaron Shalem

Chief Financial Officer (Principal Accounting 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 TAT Technologies Ltd. (the "Company") on Form 20-F for the period ending December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shmuel Fledel, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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.

/s/ Shmuel Fledel

\_\_\_\_\_  
Shmuel Fledel  
Chief Executive Officer

June 28, 2010

\* 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 TAT Technologies Ltd. (the "Company") on Form 20-F for the period ending December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Israel Often, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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.

/s/ Yaron Shalem

Yaron Shalem

Chief Financial Officer (Principal Accounting Officer)

June 28, 2010

\* 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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June 28, 2010

Securities and Exchange Commission  
Washington, D.C. 20549

Commissioners:

We have read TAT Technologies, Ltd.'s statements included under Item 16.F of its Form 20-F filed on June 28, 2010 and we agree with such statements concerning our firm.

/s/ Baker Tilly Virchow Krause, LLP

Baker Tilly Virchow Krause, LLP

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