RADA ELECTRONIC INDUSTRIES LTD
Form F-1
June 03, 2015
As filed with the Securities and Exchange Commission on June 3, 2015

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form F-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

RADA ELECTRONIC INDUSTRIES LTD.
(Exact Name of Registrant as Specified in its Charter)

State of Israel	5065	Not Applicable
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

7 Giborei Israel Street
Netanya 4250407, Israel
Tel: (972)(9) 892-1111
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Puglisi & Associates
850 Library Avenue, Suite 204
P.O. Box 885
Newark, Delaware 19715
Tel. (302) 738-6680
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies of Communications including Communications sent to Agent for Service, should be sent to:

Steven J. Glusband, Esq. Carter Ledyard & Milburn LLP Two Wall Street New York, NY 10005 Tel: 212-238-8605 Fax: 212-732-3232	Sarit Molcho, Adv. S. Friedman & Co., Advocates Amot Investment Tower 2 Weizman Street Tel Aviv 64239 Israel Tel: +972-3-6931931 Fax: +972-3-6931930	Yvan-Claude Pierre, Esq. Daniel I. Goldberg, Esq. Reed Smith LLP 599 Lexington Avenue New York, NY 10022 Tel: 212 549 0380	Adrian Daniels, Esq. Eric Spindel, Esq. Yigal Arnon & Co. 1 Azrieli Center Tel Aviv 6702101 Israel Tel: +972-3-608-7777 Fax: +972-3-608-7724

Fax: 212-521-5450

Approximate date of commencement of proposed sale to the public: As soon as practicable after effectiveness of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the “Securities Act”), check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earliest effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(1)
Ordinary Shares, NIS 0.015 par value per share	$ 14,950,000	$ 1,737.19

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(o) under the Securities Act.

(2) Includes ordinary shares that the underwriters have the option to purchase to cover over-allotments, if any.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

The information contained in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED JUNE 3, 2015

Ordinary Shares

This is a public offering of the ordinary shares of Rada Electronic Industries Ltd.

Our ordinary shares are listed on the NASDAQ Capital Market under the symbol “RADA.” The last reported sale price of our ordinary shares on June 2, 2015 was $2.09 per share. We are offering all of the ordinary shares offered by this prospectus.

Investing in our ordinary shares involves a high degree of risk. See “Risk Factors” beginning on page 6 of this prospectus for a discussion of information that should be considered in connection with an investment in our ordinary shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discount and commissions (1)	$	$
Proceeds to us (before expenses)	$	$

(1) In addition, we have agreed to reimburse the underwriters for certain expenses. See the section captioned “Underwriting” in this prospectus for additional information.

We have granted the underwriters an option to purchase up to additional ordinary shares from us at the public offering price, less the underwriting discount, within 45 days from the date of the final prospectus solely to cover over-allotments, if any.

The underwriters expect to deliver the shares to purchasers in the offering on or about , 2015.

Chardan Capital Markets, LLC

, 2015

TABLE OF CONTENTS

Unless the context otherwise requires, references in this prospectus to “the company,” “our company,” “we,” “our,” “us,” “Rada” means Rada Electronic Industries Ltd. and its subsidiary. You should rely only on the information contained in this prospectus and in any free writing prospectus which we file with the Securities and Exchange Commission. We have not, and the underwriters have not, authorized anyone to provide you with information different from that contained in this prospectus or such free writing prospectus, if any. We and the underwriters are not offering to sell, and seeking offers to buy, ordinary shares only in jurisdictions where offers and sales are not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the ordinary shares.

Presentation of Financial Information

The term “NIS” refers to new Israeli shekels, and “dollar,” “USD” or “$” refers to U.S. dollars. Unless otherwise indicated USD translations of the NIS amounts presented in this prospectus are translated using the rate of NIS 3.889 per $1.00, the representative rate of exchange as of December 31, 2014, as published by the Bank of Israel. In reading this prospectus, you should note that currency fluctuations may positively or negatively affect the presentation of our operating expenses and net income in U.S. dollars depending on increases or decreases of the U.S. dollar conversion amounts.

Market, Industry and Other Data

This prospectus includes statistical and other industry and market data that we obtained from industry publications and research, surveys and studies conducted by third parties. Industry publications and third-party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe these industry publications and third-party research, surveys and studies are reliable, we have not independently verified such data and you are cautioned not to give undue weight to this information.

PROSPECTUS SUMMARY

The following summary highlights information contained in other parts of this prospectus and provides an overview of the material aspects of this offering. The following summary does not contain all of the information you should consider before investing in our ordinary shares. You should read this entire prospectus carefully, including the risks of investing in our ordinary shares discussed under “Risk Factors” beginning on page 6, our financial statements incorporated by reference to this prospectus and the related notes included in this prospectus and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our Company

We are an Israeli-based defense electronics contractor specializing in the development, manufacture, marketing and sales of military avionics systems for manned and unmanned aircraft, inertial navigation systems for air and land platforms and tactical land radars for force and border protection applications.

We develop, manufacture and sell defense electronics, including avionics solutions (including avionics for unmanned aerial vehicles, or UAVs), airborne data/video recording and management systems, inertial navigation systems and tactical land radars for defense forces and border protection systems. In addition, we continue to sell and support our legacy commercial aviation products and services, mainly through our Chinese subsidiary, Beijing Hua Rui Aircraft Maintenance and Service, Co., Ltd., known as CACS.

We primarily provide integrated solutions. Our aim is to provide not only state-of-the-art products, but to also provide comprehensive end-to-end solutions for one or more systems. Our current product lines are:

- Military avionics (data/video recorders, core avionics for aircraft and UAVs), which accounted for approximately 89% of our sales in 2014;
- Inertial navigation systems, or INS, for aerial and land platforms; and
- Tactical radars for defense forces and land based border protection systems.

We have been a developer and manufacturer of core avionics systems for over 30 years and have developed, fielded and supported a wide range of solid-state digital recorders, cameras and debriefing systems for aerospace and military applications, including flight data recorders for fighter aircraft, digital video/audio/data recorders, high-rate (no compression) data recorders for aircraft and airborne pods, video recorders and airborne data servers, a wide range of head-up-displays color video cameras for fighter aircraft and a variety of ground debriefing solutions.

We currently offer a wide spectrum of military avionics systems designed for integration in new and upgraded military aircraft and UAVs worldwide. Our avionics solutions range from fully integrated avionics suites, to Military off-the-shelf, or MOTS, core avionics subsystems, to tailor-made “built-to-spec” units, backed by our teams of experts dedicated to providing global technical and maintenance support. Our avionic products are operational in aircraft of leading air forces and in aircraft sold by prime integrators worldwide, such as the Israeli Air Force, or IAF, Lockheed Martin Corporation, or Lockheed Martin, The Boeing Company, or Boeing, GE Aviation, a subsidiary of General Electric Company, Hindustan Aeronautics Limited, or HAL, Embraer S.A., or Embraer, Israel Aerospace Industries, or IAI, Rafael Advanced Defense Systems, or Rafael, the Chilean Air Force (Fuerza Aérea de Chile) or FACh, and many others. Our units are installed onboard F-16, F-15, A-4, Jaguar, MiG-27, Su-30MKI, Dhruv Helicopter, MiG-29, Super-Tucano and other aircraft and onboard a number of UAVs.

Leveraging our long-standing scientific research and algorithmic expertise, utilizing state-of-the-art fiber optic gyro and micro-electro mechanical system sensors and taking advantage of our experience in electronic and mechanical design, we independently developed a line of advanced, yet affordable, INS. Our INS products are adaptable to the performance and interface requirements of multiple combat platforms and weapon systems. Among our customers for INS are leading air forces and prime integrators worldwide, including the IAF, IAI, Rafael, Embraer, Indra Sistemas S.A., or Indra, and India's Defense Research and Development Organization, or DRDO.

We also independently developed advanced ground radars for tactical applications such as defense forces protection and border protection. Our pulse Doppler, software-defined radars are solid-state, fully digital, incorporate active electronically scanned array, or AESA, antenna, are compact, mobile and highly reliable, provide hemispheric spatial coverage and multi-mission capabilities, and demonstrate unprecedented performance-to-price ratio. We offer two radar hardware platforms: (i) a compact hemispheric radar, or CHR, which is tailored for use in combat vehicles and short-range protection applications; and (ii) a multi-mission hemispheric radar, or MHR, which is tailored for use in force and border protection applications. Among our customers who have purchased our ground radars for research and testing purposes are prime integrators and air forces, including Boeing, Lockheed Martin, DRS Technologies, Inc., or DRS, the US Office of Naval Research, or the ONR,(all of which have purchased radar systems for research and experimental purposes only) and a leading ministry of defense for its national alert system.

In addition, we continue to support our legacy commercial aviation test stations. We also provide test and repair services through CACS, our China-based subsidiary.

Industry Background

The defense electronics market has grown in recent years and currently accounts for a large part of the defense business. We believe that the defense electronics market reflects two contradictory trends, the increased use of defense electronics, which has been offset by the significant reduction in the price of electronic systems, resulting in a reduction in the dollar value of the market. These two trends have kept the annual total global defense electronics market size at an almost constant level during recent years. With our new inertial navigation systems and tactical radar products, the size of the markets which we address has expanded. According to a report issued in June 2014 by the market research company Yole Développement, titled “High-End Gyroscopes Accelerometers and IMUs for Defense Aerospace and Industrial,” the estimated market for INS was approximately $2 billion in 2014 and that the market was expected to grow by a 4.5% compounded annual growth rate, or CAGR, through 2019. Similarly, in an article published in the Microwave Journal in December 2014, the program director of Strategy Analytics reported that the global military radar market would grow at a CAGR of 3.6% from 2013 to 2023 with a total market worth of over $18.5 billion in 2023. Today, new military vehicles of all kinds are equipped with significantly more electronic systems than they used to carry in the past. The increasing usage of advanced electronics in modern vehicles, including upgrades of existing technology and the growing use of unmanned vehicles of all kinds, have provided significant growth number of units sold in the market.

Today’s advanced defense electronics systems typically incorporate components that are derived from the industrial or the consumer electronics markets, especially from the telecom markets. Most of the defense electronics systems are built with commercial components and sub-systems, which reduce the overall price, and at the same time generate component obsolescence issues. The obsolescence issues arise because commercial suppliers generally do not sell or support components or subsystems for the lengthy periods of time required by purchasers of defense electronic systems. As a result, we may be required to invest additional amounts to source, substitute and integrate the components and subsystems and keep them updated.

Purchasers of our defense electronics products are either governments or major defense contractors acting as integrators. Engagement in business relationships with these customers is complex, has long sales cycles and requires long-term commitments for future support of delivered hardware. Production batches of such products are usually small. Suppliers of defense electronic systems with whom we compete are either providers of sub-systems to major integrators or providers of integrated systems to the industry or to armed forces. Our competitors are typically very large companies with substantially greater resources than us and have diversified product offerings.

Our Strengths

We believe that, because of the following competitive strengths, we will be able to enhance our position as a provider of defense electronics:

As an industry innovator, we continue to develop and incorporate cutting edge technologies into our products;

We employ approximately 45 persons in our research and development activities who have hands-on experience and expertise;

We provide innovative and cost-effective products, often at prices significantly lower than our competitors;

In our industry, we offer a rare combination of being a small, well established and highly responsive company with a wealth of experience;

We provide a high level of responsiveness to customer needs; and

We have an experienced management team with almost 200 years of industry and military experience and an average tenure with our company of 17 years.

Our Strategy

Our business development strategy is based on the following principles:

Maintaining our business focus on electronic systems for the military and para-military markets;

Expanding our product offerings by adding new applications to our existing product lines and by adapting our products to land systems;

Expanding our customer base by including our products in solutions and integrated systems for airborne and land vehicles;

Establishing sales channels with system integrators and major manufacturers such as Embraer, HAL, Lockheed Martin, Boeing, Israel Military Industries, or IMI, IAI, Rafael, DRS and others;

Expanding our products base through identification of current and future applications that may become affordable by the incorporation of advanced commercial off-the-shelf technologies that offer superior performance and/or significant price savings; and

Developing new marketing channels aimed directly at large potential markets, especially land-based defense systems and homeland security segments.

Recent Developments

On May 26, 2015 we published our 2015 first quarter results in a press release. We announced that our revenues declined to $3.6 million in the first quarter of 2015 from $5 million in the corresponding quarter in 2014. The decline in revenues in the first quarter of 2015 was mainly due to the request of several customers to delay deliveries of certain avionics production items. We incurred a net loss of $777,000, or $(0.09) per share in the first quarter of 2015 compared to net income of $158,000, or $0.02 per share in the first quarter of 2014.

On May 25, 2015, our board of directors approved the adoption of our 2015 Israel Stock Option Plan, or the 2015 Option Plan, pursuant to which 3,000,000 ordinary shares will be reserved for issuance. No options have been granted as yet under the 2015 Option Plan. See “Recently Adopted Employee Share Option Plan.”

In April and June 2015, following shareholder approval, the standstill agreement with our two lenders was amended and the forbearance period was extended to August 31, 2016. In the event that this offering is not completed by September 30, 2015, our controlling shareholder and the other director lender to our company will be entitled, on a pro rata basis, to convert some or all of the remaining outstanding debt from time to time into our ordinary shares. The terms of such conversion, which were approved by the shareholders of our company are as follows: (i) the minimum amount to be converted at any one time is $300,000 of debt; (ii) the share issue price will be the lower of $1.00 or 15% below the preceding seven (7) days volume weighted average price; and (iii) any unconverted debt will continue to be subject to the terms of the Standstill Agreement. See “Related Party Transactions” beginning on page 45 of this prospectus for further details.

Corporate Information

We were incorporated under the laws of the State of Israel on December 8, 1970. We are a public limited liability company under the Israeli Companies Law 1999-5759, or the Israeli Companies Law, and operate under this law and associated legislation. Our registered offices and principal place of business are located at 7 Giborei Israel Street, Netanya 4250407, Israel, and our telephone number is +972-9-892-1111. Our website address is www.rada.com. The information on our website is not incorporated by reference into this annual report.

THE OFFERING

Ordinary shares offered by us	ordinary shares
Over-allotment option	The underwriters have an option for a period of 45 days to purchase up to additional ordinary shares to cover over-allotments, if any.
Ordinary shares currently outstanding	8,988,396 ordinary shares
Ordinary shares to be outstanding after the offering	ordinary shares (or ordinary shares if the underwriter exercises in full its option to purchase additional ordinary shares)
Use of proceeds	We estimate that we will receive $ million in net proceeds from the sale of the securities in this offering, based on a price of $ per ordinary share and after deducting underwriting discounts and commissions and offering expenses payable by us. If the representative of the underwriters exercises the over-allotment option in full, we estimate that the net proceeds from this offering will be approximately $, based on the offering price of $ per ordinary share, and after deducting underwriting discounts and commissions and offering expenses payable by us. We intend to use the net proceeds from this offering to repay debt of approximately $9.8 million (including accrued interest), the repayment of certain expenses incurred by an affiliate of our controlling shareholder and for general corporate purposes including working capital. See "Use of Proceeds" beginning on page 20 of this prospectus.
Risk factors	See "Risk Factors" beginning on page 6, and other information included in this prospectus for a discussion of factors you should carefully consider when making an investment decision.

NASDAQ Capital Market symbol	RADA

The number of our ordinary shares outstanding after this offering is based on 8,988,396 ordinary shares outstanding as of , 2015, and excludes:

- 1,435,407 ordinary shares issuable upon exercise of a currently outstanding $3,000,000 convertible loan having an exercise price of $2.09 per share; and

- up to 3,000,000 ordinary shares issuable under the company's 2015 Option Plan.

Unless otherwise indicated, all information in this prospectus assumes:

- no exercise of the underwriters' over-allotment option to purchase up to an additional ordinary shares;

- a public offering price of $, the closing price on the NASDAQ Capital Market for our ordinary shares on , 2015; and

- the receipt of sufficient proceeds to repay our outstanding debt and accrued interest of $9.8 million in full. To the extent a portion of the outstanding debt remains outstanding after the offering, the holders of the remaining debt will have the right to convert such debt into our ordinary shares at the lower of $1.00 or 15% below the preceding seven (7) days volume weighted average price.

SUMMARY FINANCIAL DATA

The following summary consolidated financial data for and as of the five years ended December 31, 2014 are derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. We derived the following summary consolidated statements of operations data for the years ended December 31, 2014, 2013 and 2012 and the consolidated balance sheets data as of December 31, 2014 and 2013 from our audited consolidated financial statements incorporated by reference in this prospectus from our Annual Report on Form 20-F for the year ended December 31, 2014. You should read this data together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus and our audited consolidated financial statements and related notes and the information under the captions “Consolidated Statements and Other Financial Information” and “Operating and Financial Review and Prospects” in our Annual Report on Form 20-F for the year ended December 31, 2014, which is incorporated by reference in this prospectus. For more details on how you can obtain the documents incorporated by reference in this prospectus, see “Where You Can Find Additional Information” and “Documents Incorporated by Reference” appearing elsewhere in this prospectus. Our historical results are not necessarily indicative of future results.

	Year ended December 31,				
	2014	2013	2012	2011	2010
	(U.S. dollars in thousands, except per share data)				
Summary Statement of Operations Data:					
Revenues	$ 22,481	$ 21,761	$ 21,551	$ 19,405	$ 27,523
Cost of revenues	15,944	17,160	16,233	13,800	20,117
Gross profit	6,537	4,601	5,318	5,605	7,406
Operating expenses:					
Research and development, net	789	1,459	2,423	2,543	1,182
Selling and marketing	2,392	1,959	1,664	2,106	2,563
General and administrative	1,901	1,919	2,137	1,944	1,732
Total operating expenses	5,082	5,337	6,224	6,593	5,477
Operating income (loss)	1,455	(736)	(906)	(988)	1,929
Financial income (expenses)	(1,254)	(1,907)	(1,149)	(531)	(1,184)
Income (loss)	201	(2,643)	(2,055)	(1,519)	745
Net (income) loss attributable to non-controlling interest	7	8	4	(7)	(11)
Net income (loss) attributable to RADA Electronic Industries Ltd.’s shareholders	$ 208	$ (2,635)	$ (2,051)	$ (1,526)	$ 734
Per Share Data:					
Basic and diluted net income (loss) per ordinary share attributable for RADA Electronic Industries Ltd.’s shareholders	0.02	(0.30)	(0.23)	(0.17)	0.08
Weighted average number of shares used to compute basic and diluted net income (loss) per share	8,945	8,919	8,919	8,919	8,869

	As of December 31, 2014	
	Actual	Adjusted
Summary Balance Sheet Data:	(in thousands)	

Working capital	$ 35
Total assets	20,097
Short-term credits and current maturities of long-term loans	6,709
Convertible note - short-term	3,000
Long-term shareholders loans, net of current maturities	-
Convertible note - long term	-
Shareholders' equity	$ 3,547

RISK FACTORS

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

Risks Related to Our Business and Our Industry

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

We incurred operating losses in each of the years 2011, 2012 and 2013 and we incurred an operating loss of $450,000 and a net loss of $777,000 in the quarter ended March 31, 2015. We may not be able to achieve or sustain profitable operations in the future or generate positive cash flows from operations. As of March 31, 2015, our accumulated deficit was over $68 million. To the extent that we incur operating losses in the future or are unable to generate free cash flows from our business, we may not have sufficient working capital to fund our operations and will be required to obtain additional financing to maintain our operations. Such financing may not be available, or, if available, may not be on terms satisfactory to us. If adequate funds to maintain operations are not available to us, our business, results of operations and financial condition will be adversely affected.

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

In pursuit of our growth strategy, we entered into a number of strategic relationships with Embraer, HAL, IAI, Lockheed Martin, Boeing, Rafael, IMI, and DRS to increase our penetration into the defense electronics market. We are currently focusing our business development efforts to further develop these relationships and to enter into new relationships. Should our relationships fail to materialize into significant agreements or should we fail to work efficiently with these companies, we may lose sales and marketing opportunities and our business, results of operations and financial condition could be adversely affected.

Our military avionic products accounted for more than 89% of our sales in the year ended December 31, 2014. Our future growth is dependent on our gaining market acceptance and regular production orders for both our land-based tactical radar products and our inertial navigation systems for aerial platforms. In the event we are not successful in obtaining a significant volume of orders for our tactical radar products and inertial navigation systems, we will face significant obstacles in expanding our business.

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

There can be no assurance that our advanced ground radar products will gain market acceptance and therefore we may never recover our investment in this new product family.

We have developed two radar hardware platforms for use in combat vehicles and short-range protection applications and in defense forces and border protection applications. In December 2014, we announced the first significant order for this product family, a $2.8 million order from a leading ministry of defense for its national alert system. Shipments under this order are not expected to begin until the fourth quarter of 2015. To date, we have not received any other significant orders. In March 2015 we announced that we entered into (i) a contract with Lockheed Martin, which selected our multi-mission hemispheric radar product to support internally funded high energy laser weapon system prototype testing, and (ii) an agreement with DRS under which they agreed to sell, produce, and support, our tactical radars as part of their tactical radar portfolio. Other than a single radar unit ordered and delivered to Lockheed Martin and two radar units ordered and delivered to DRS, we have not yet received any orders arising from Lockheed Martin's weapon development efforts or from DRS with respect to the sale of our radar products to third parties and there can be no assurance that we will ever receive any such orders. If these products do not achieve market acceptance, our business, results of operations and financial condition will be adversely affected.

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

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

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

The vast majority of our revenues are derived from the sale of products with military applications. These revenues totaled approximately \$21.6 million, or 96% of our revenues, in 2014, \$20.3 million, or 93% of our revenues, in 2013 and \$20.3 million, or 94% of our revenues, in 2012. The defense budgets of a number of countries may be reduced in the future. Declines in defense budgets may result in reduced demand for our products and manufacturing services. This would result in reduction in our core business' revenues and adversely affect our business, results of operations and financial condition.

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

During periods of slowing economic activity, our customers may reduce their demand for our products and technology, which would reduce our sales, and our business, operating results and financial condition may be adversely affected. Economies throughout the world currently face a number of challenges, including threatened sovereign defaults, credit downgrades, restricted credit for businesses and consumers and potentially falling demand for a variety of products and services. Notwithstanding the improving economic conditions in some of our markets, many companies are still cutting back expenditures or delaying plans to add additional personnel or systems. Any further worsening of the global economic condition could result in longer sales cycles, slower adoption of new technologies and increased price competition for our products and services. We could also be exposed to credit risk and payment delinquencies on our accounts receivable, which are not covered by collateral. Any of these events would likely harm our business, operating results and financial condition.

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

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

- their requirements or budgetary constraints change;

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

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

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

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

We are subject to laws regulating export of "dual use" items (items that are typically sold in the commercial market, but that also may be used in the defense market) and defense export control legislation. If government approvals required under these laws and regulations are not obtained, or if authorizations previously granted are not renewed, our ability to export our products from Israel could be negatively impacted, which may cause a reduction in our revenues and a potential material negative impact on our financial results. Additionally, our participation in governmental procurement processes in Israel and other countries is subject to specific regulations governing the conduct of the process of procuring defense contracts. Furthermore, solicitations for procurements by governmental purchasing agencies in Israel and other countries are governed by laws, regulations and procedures relating to procurement integrity, including avoiding conflicts of interest and corruption in the procurement process. We may not be able to respond quickly and effectively to changing laws and regulations and any failure to comply with such laws and regulations may subject us to significant liability and penalties.

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

A significant portion of our revenues is derived from a small number of customers. During the years ended December 31, 2014 and 2013, 51% and 54% of our revenues, respectively, were attributable to three customers. We anticipate that a significant portion of our future revenues will continue to be derived from sales to a small number of customers. No assurances can be given that our customers will continue to purchase our products, that we will be successful in any bid for new contracts to provide such products, or that if we are grantedsubsequent orders, that such orders would be of a scope comparable to the sales that we have experienced to date. If our principal customers do not continue to purchase products from us at current levels or if we do not retain such customers and we are not able to derive sufficient revenues from sales to new customers to compensate for their loss, our revenues would be reduced and adversely affect our business, results of operations and financial condition.

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

We acquire most of the components for the manufacture of our 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 key components. Suppliers of some of the components require us to place orders with significant lead-times to assure supply in accordance with our manufacturing requirements. Ouont-family:ARIAL" SIZE="2">1,796,464

St. Jude Medical, Inc.

135,000 4,885,650

Varian Medical Systems, Inc.[(a)]

96,300 5,023,008

Zimmer Holdings, Inc.[(a)]

107,000 5,724,500

21,436,702

Health Care Providers & Services (1.82%)

Brookdale Senior Living, Inc.[(a)]

327,767 4,110,198

Express Scripts, Inc.[(a)]

47,367 1,755,895

Medco Health Solutions, Inc.[(a)]

105,210 4,933,297

WellPoint, Inc.

68,122 4,447,004

15,246,394

Health Care Technology (1.02%)

Cerner Corp.[a]

124,664 8,541,977

Life Sciences Tools & Services (0.59%)

Life Technologies Corp.[a]

128,100 4,922,883

Pharmaceuticals (1.74%)

Abbott Laboratories

113,350 5,796,719

Allergan, Inc.

81,800 6,738,684

Teva Pharmaceutical Industries Ltd.[(b)]	54,000	2,009,880
		14,545,283
INDUSTRIALS (8.24%)		
Aerospace & Defense (3.33%)		
The Boeing Co.	64,295	3,890,490
General Dynamics Corp.	94,428	5,372,009
Huntington Ingalls Industries, Inc.[(a)]	21,862	531,903
L-3 Communications Holdings, Inc.	93,425	5,789,547
Northrop Grumman Corp.	123,300	6,431,328
Precision Castparts Corp.	37,700	5,860,842
		27,876,119

Air Freight & Logistics (1.52%)

C.H. Robinson Worldwide, Inc.	121,245	8,301,645
Expeditors International of Washington, Inc.	109,790	4,451,985
		12,753,630

See Notes to Schedule of Investments.

	SHARES	MARKET VALUE
COMMON STOCKS (continued)		
Building Products (0.28%)		
Masco Corp.	325,475	$2,317,382
Construction & Engineering (0.35%)		
Fluor Corp.	62,001	2,886,146
Electrical Equipment (1.03%)		
Rockwell Automation, Inc.	153,420	8,591,520
Industrial Conglomerates (0.33%)		
Textron, Inc.	157,620	2,780,417
Machinery (0.72%)		
Navistar International Corp.[(a)]	146,081	4,692,122
Terex Corp.[(a)]	131,115	1,345,240
		6,037,362
Professional Services (0.54%)		
Robert Half International, Inc.	211,896	4,496,433
Transportation Infrastructure (0.14%)		
Aegean Marine Petroleum Network, Inc.	255,135	1,150,659
INFORMATION TECHNOLOGY (25.37%)		
Communications Equipment (4.81%)		
Acme Packet, Inc.[(a)]	72,384	3,082,834
Cisco Systems, Inc.	1,016,085	15,739,157
Harris Corp.	135,000	4,612,950
QUALCOMM, Inc.	344,703	16,762,907
		40,197,848
Computers & Peripherals (5.91%)		
Apple, Inc.[(a)]	74,186	28,278,219
Dell, Inc.[(a)]	926,450	13,109,268
Hewlett-Packard Co.	358,125	8,039,906
		49,427,393
Electronic Equipment & Instruments (1.85%)		
Avnet, Inc.[(a)]	122,885	3,204,841
Corning, Inc.	370,000	4,573,200
Tyco Electronics Ltd.	274,325	7,719,505
		15,497,546

Internet Software & Services (4.41%)		
Baidu, Inc.[(a)(b)]	86,398	9,236,810
eBay, Inc.[(a)]	245,233	7,231,921
Google, Inc., Class A[(a)]	25,246	12,986,038
Monster Worldwide, Inc.[(a)]	616,660	4,427,619

See Notes to Schedule of Investments.

	SHARES	MARKET VALUE
COMMON STOCKS (continued)		
Internet Software & Services (continued)		
OpenTable, Inc.[(a)]	65,542	$3,015,587
		36,897,975
IT Services (3.42%)		
Cognizant Technology Solutions Corp., Class A[(a)]	85,400	5,354,580
Computer Sciences Corp.	148,500	3,987,225
Visa, Inc., Class A	117,929	10,108,874
The Western Union Co.	598,672	9,153,695
		28,604,374
Semiconductors & Semiconductor Equipment (2.23%)		
Analog Devices, Inc.	172,000	5,375,000
ARM Holdings PLC[(b)]	157,300	4,011,150
Broadcom Corp., Class A[(a)]	172,645	5,747,352
Intel Corp.	44,582	950,934
MEMC Electronic Materials, Inc.[(a)]	485,130	2,542,082
		18,626,518
Software (2.74%)		
CA, Inc.	249,875	4,850,074
Microsoft Corp.	346,225	8,617,540
Salesforce.com, Inc.[(a)]	54,811	6,263,801
VMware, Inc., Class A[(a)]	39,200	3,150,896
		22,882,311
MATERIALS (3.66%)		
Chemicals (2.44%)		
The Dow Chemical Co.	105,089	2,360,299
The Mosaic Co.	72,798	3,564,918
PPG Industries, Inc.	70,850	5,006,261
Praxair, Inc.	62,800	5,870,544
The Sherwin-Williams Co.	48,400	3,597,088
		20,399,110
Metals & Mining (1.22%)		
Alcoa, Inc.	407,000	3,894,990
Freeport-McMoRan Copper & Gold, Inc.	117,844	3,588,350
Silver Wheaton Corp.	91,200	2,685,840
		10,169,180
TELECOMMUNICATION SERVICES (1.47%)		
Wireless Telecommunication Services (1.47%)		
American Tower Corp., Class A[(a)]	165,460	8,901,748
Sprint Nextel Corp.[(a)]	166,435	505,962
Vodafone Group PLC[(b)]	112,000	2,872,800

		12,280,510
UTILITIES (2.64%)		
Electric Utilities (1.63%)		
Edison International	89,000	3,404,250
Entergy Corp.	91,950	6,095,366

See Notes to Schedule of Investments.

	SHARES	MARKET VALUE
COMMON STOCKS (continued)		
Electric Utilities (continued)		
FirstEnergy Corp.	92,587	$4,158,082
		13,657,698
Gas Utilities (0.50%)		
EQT Corp.	79,051	4,218,161
Independent Power Producers & Energy Traders (0.51%)		
GenOn Energy, Inc.[(a)]	1,526,220	4,242,892
TOTAL COMMON STOCKS		
(COST OF $950,499,637)		828,375,324
EXCHANGE TRADED FUND (0.00%)		
iShares Russell 1000 Value Index Fund	44	2,490
TOTAL EXCHANGE TRADED FUND		
(COST OF $2,978)		2,490

	PRINCIPAL AMOUNT	MARKET VALUE
CORPORATE BOND (0.01%)		
INDUSTRIALS (0.01%)		
Airlines (0.01%)		
United Continental Holdings, Inc. 6.00%, 10/15/2029	$38,000	90,250
TOTAL CORPORATE BOND		
(COST OF $82,331)		90,250

	PAR VALUE	
SHORT TERM INVESTMENT (0.99%)		
REPURCHASE AGREEMENT (0.99%)		
Repurchase agreement with State Street Bank & Trust Co., dated 09/30/11, due 10/03/11 at 0.01%, collateralized by several Fannie Mae and Freddie Mac instruments with various maturity dates, market value of $8,411,743 (Repurchase proceeds of $8,239,000)	$8,239,000	8,239,000
TOTAL SHORT TERM INVESTMENT		
(COST OF $8,239,000)		8,239,000

See Notes to Schedule of Investments.

TOTAL INVESTMENTS (100.05%)	
(COST OF $958,823,946)[c]	836,707,064
LIABILITIES IN EXCESS OF OTHER ASSETS (-0.05%)	(405,311)
NET ASSETS (100.00%)	$836,301,753
NET ASSET VALUE PER SHARE	
(182,678,079 SHARES OUTSTANDING)	$4.58

(a) Non-income producing security.
(b) American Depositary Receipt.
(c) Cost of investments for federal income tax purposes is $969,615,533.

Gross unrealized appreciation and depreciation at September 30, 2011 based on cost of investments for federal income tax purposes is as follows:

Gross unrealized appreciation	$61,652,871
Gross unrealized depreciation	(194,561,340)
Net unrealized appreciation	$(132,908,469)

For Fund compliance purposes, the Fund s industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine industry sub-classifications for reporting ease. Industries are shown as a percent of net assets. These industry classifications are unaudited.

See Notes to Schedule of Investments.

Security Valuation

Equity securities including common stocks and exchange traded funds are valued at the last sale price at the close of the principal exchange on which they trade, except for securities listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) exchange, which are valued at the NASDAQ official closing price. Unlisted securities or listed securities for which there were no sales during the day are valued at the closing bid price on such exchanges or over-the-counter markets.

Debt securities generally are valued by pricing services approved by the Liberty All-Star® Equity Fund s (the Fund) Board of Trustees (the Board). The services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. Debt securities for which quotations are readily available are valued at an over-the-counter or exchange bid quotation.

Short-term debt obligations maturing in more than 60 days for which market quotations are readily available are valued at current market value. Short-term debt obligations maturing within 60 days are valued at amortized cost, which approximates market value.

Investments for which market quotations are not readily available are valued at fair value as determined in good faith under consistently applied procedures approved by and under the general supervision of the Board.

Foreign Securities

The Fund invests in foreign securities including American Depositary Receipts, which may involve a number of risk factors and special considerations not present with investments in securities of U.S. corporations.

Security Transactions

Security transactions are recorded on the trade date. Cost is determined and gains/(losses) are based upon the specific identification method for both financial statement and federal income tax purposes.

Repurchase Agreements

The Fund may engage in repurchase agreement transactions with institutions that the Fund s investment advisor has determined are creditworthy. The Fund, through its custodian, receives delivery of underlying securities collateralizing a repurchase agreement. Collateral is at least equal, at all times, to the value of the repurchase obligation including interest. A repurchase agreement transaction involves certain risks in the event of default or insolvency of the counterparty. These risks include possible delays or restrictions upon a Fund s ability to dispose of the underlying securities and a possible decline in the value of the underlying securities during the period while the Fund seeks to assert its rights.

Income Recognition

Interest income is recorded on the accrual basis. Premium and discount are amortized and accreted, respectively, on all debt securities. Corporate actions and dividend income are recorded on the ex-date.

The Fund estimates components of distributions from real estate investment trusts (REITs). Distributions received in excess of income are recorded as a reduction of the cost of the related investments. Once the REIT reports annually the tax character of its distributions, the Fund revises its estimates. If the Fund no longer owns the applicable securities, any distributions received in excess of income are recorded as realized gains.

Fair Value Measurements

The Fund discloses the classification of its fair value measurements following the three-tier hierarchy based on the inputs used to measure fair value. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability that are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity s own assumptions about the assumptions market participants would use in pricing the asset or liability that are developed based on the best information available.

Various inputs are used in determining the value of the Fund s investments as of the end of the reporting period. When inputs used fall into different levels of the fair value hierarchy, the level in the hierarchy within the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The designated input levels are not necessarily an indication of the risk or liquidity associated with these investments. These inputs are categorized in the following hierarchy under applicable financial accounting standards:

Level 1 Unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities that a Fund has the ability to access at the measurement date;

Level 2 Quoted prices which are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and

Level 3 Significant unobservable prices or inputs (including the Fund s own assumptions in determining the fair value of investments) where there is little or no market activity for the asset or liability at the measurement date.

The following is a summary of the inputs used to value the Fund s investments as of September 30, 2011:

Investments in Securities at Value*	**Valuation Inputs**			
	Level 1	**Level 2**	**Level 3**	**Total**
Common Stocks	$ 828,375,324	$	$	$ 828,375,324
Exchange Traded Fund	2,490			2,490
Corporate Bond		90,250		90,250
Short Term Investment		8,239,000		8,239,000
Total	$ 828,377,814	$ 8,329,250	$	$ 836,707,064

*See Schedule of Investments for industry classifications

For the period ended September 30, 2011, the Fund did not have any significant transfers between Level 1 and Level 2 securities. The Fund did not have any securities which used significant unobservable inputs (Level 3) in determining fair value.

Indemnification

In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnities. The Fund s maximum exposure under these arrangements is unknown, as this would involve future claims against the Fund. Also, under the Fund s organizational documents and by contract, the Trustees and Officers of the Fund are indemnified against certain liabilities that may arise out of their duties to the Fund. However, based on experience, the Fund expects the risk of loss due to these warranties and indemnities to be minimal.

The Dow Jones Industrial Average

A price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Lipper Large-Cap Core Mutual Fund Average

The average of funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) above Lipper s U.S. domestic equity large-cap floor. These funds typically have an average price-to-earnings ratio, price-to-book ratio, and three-year sales-per-share growth value, compared to the S&P 500 Index.

S&P 500 Index

A representative sample of 500 leading companies in leading industries of the U.S. economy. Focuses on the large-cap segment of the market with approximately 75% coverage of U.S. equities.