RADA ELECTRONIC INDUSTRIES LTD
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PROSPECTUS

RADA ELECTRONIC INDUSTRIES LTD.
1,110,214 ORDINARY SHARES

This prospectus relates to up to 1,110,214 ordinary shares of RADA Electronic Industries Ltd. that the selling shareholders named in this prospectus or their transferees may offer from time to time. Of the ordinary shares offered hereby, 84,916 ordinary shares were issued to the selling shareholders and up to: (i) 619,047 ordinary shares are issuable upon conversion of $3 million of convertible notes; and (ii) 406,250 ordinary shares are issuable upon exercise of warrants. Such convertible notes and warrants were issued pursuant to a securities purchase agreement, dated as of July 9, 2004. The registration of the ordinary shares does not necessarily mean that the selling shareholders or their transferees will offer or sell their shares.

We are not offering or selling any of our ordinary shares pursuant to this prospectus. We will not receive any of the proceeds from the sale by the selling shareholders of the ordinary shares offered by this prospectus. We will bear all expenses in connection with the preparation of this prospectus.

Our ordinary shares are listed for trading on the NASDAQ Capital Market under the symbol "RADI." On April 12, 2007, the closing price of our ordinary shares on the NASDAQ Capital Market was $2.46.

THESE SECURITIES INVOLVE A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 4.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

APRIL 12, 2007

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When you are deciding whether to purchase the ordinary shares being offered by this prospectus, you should rely only on the information incorporated by reference or provided in this prospectus or any supplement. We have not authorized anyone to provide you with different information. We are not making any offer of the ordinary shares in any state where the offer is not permitted. You should not assume that the information in this prospectus or any supplement is accurate as of any date other than the date on the front of those documents.

In this prospectus, "we," "us," "our," the "Company" and "RADA" refer to RADA Electronic Industries Ltd., an Israeli company, and our Chinese subsidiary.

We are a "foreign private issuer" as defined in Rule 3b-4 under the Securities Exchange Act of 1934, or the Exchange Act. As a result, 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 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.

We publish annually an annual report on our website containing financial statements that have been examined and reported on, with an opinion expressed by, a qualified independent auditor or certified public accountant. We prepare our financial statements in U.S. dollars and in accordance with accounting principles generally accepted in the United States. All references to "dollars" or "$" in this prospectus are to U.S. dollars, and all references to "shekels" or "NIS" are to New Israeli Shekels.

NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated in it by reference contain forward-looking statements which involve known and unknown risks and uncertainties. We include this notice for the express purpose of permitting us to obtain the protections of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to all such forward-looking statements. Examples of forward-looking statements include: projections of capital expenditures, competitive pressures, revenues, growth prospects, product development, financial resources and other financial matters. You can identify these and other forward-looking statements by the use of words such as "may," "should," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential" or the negative of such terms, or other comparable terminology.

Our ability to predict the results of our operations or the effects of various events on our operating results is inherently uncertain. Therefore, we caution you to consider carefully the matters described under the caption "Risk Factors" and certain other matters discussed in this prospectus, the documents incorporated by reference in this prospectus, and other publicly available sources. Such factors and many other factors beyond the control of our

management could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by the forward-looking statements.

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PROSPECTUS SUMMARY

YOU SHOULD READ THE FOLLOWING SUMMARY TOGETHER WITH THE MORE DETAILED INFORMATION ABOUT US, THE ORDINARY SHARES THAT MAY BE SOLD FROM TIME TO TIME, AND OUR FINANCIAL STATEMENTS AND THE NOTES TO THEM, ALL OF WHICH APPEAR ELSEWHERE IN THIS PROSPECTUS OR IN THE DOCUMENTS INCORPORATED BY REFERENCE IN THIS PROSPECTUS.

RADA ELECTRONIC INDUSTRIES LTD.

We develop, manufacture and sell automated test equipment, avionics products and ground debriefing systems and provide manufacturing services for military and commercial use, mainly in Israel, the U.S. and Europe. We also provide test and repair services using our CATS(TM) testers and test program sets through our Chinese subsidiary.

We were incorporated in Israel on December 8, 1970 and have one majority owned subsidiary in China. Our registered offices and principal place of business are located at 7 Giborei Israel Street, Netanya 42504, Israel, and our telephone number is 972-9-892-1111. Our address on the internet is www.rada.com. Our agent for service of process in the U.S. is Puglisi & Associates.

THE OFFERING

Ordinary shares offered	1,110,214 shares, including 1,110,214 ordinary shares that were issued to the selling shareholders and up to: (i) 619,047 shares issuable upon conversion of convertible notes; and (ii) 406,250 shares issuable upon exercise of outstanding warrants.
NASDAQ Capital Market Symbol	"RADA"
Use of proceeds	We will not receive any proceeds from the sale of the ordinary shares offered hereby. We will, however, receive the proceeds from the exercise of the warrants if and when they are exercised.
Ordinary shares outstanding	8,728,509 shares
Risk Factors	Prospective investors should carefully consider the Risk Factors beginning on Page 4 before buying the ordinary shares offered hereby.

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 LOSSES, AND MAY NOT BE ABLE TO ACHIEVE OR SUSTAIN PROFITABILITY IN THE FUTURE.

In the year ended December 31, 2006 we recorded a net loss of $2 million. We have incurred losses in three out of the last five years and as of December 31, 2006 our accumulated deficit was $61 million. We may not be able to achieve or sustain profitability in the future.

WE MAY NOT BE ABLE TO SERVICE OUR DEBT, INCLUDING THE $3 MILLION CONVERTIBLE NOTES DUE JULY 12, 2007.

Our ability to pay or to refinance our indebtedness, including the $3 million convertible notes due July 12, 2007, will depend upon our future operating performance. Our business may not generate sufficient cash flow from operations and future borrowings may not be available to us in amounts sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. If we are unable to meet our debt service obligations or fund our other liquidity needs, we would attempt to restructure or refinance our indebtedness or seek additional equity capital. It may be challenging for us to accomplish such actions on satisfactory terms.

WE MAY NEED TO RAISE ADDITIONAL CAPITAL IN THE FUTURE, WHICH MAY NOT BE AVAILABLE TO US.

Our working capital requirements and the cash flow provided by our operating activities are likely to vary greatly from quarter to quarter, depending on the timing of orders and deliveries, the build-up of inventories, and the payment terms offered to our customers. As a consequence of our significant losses, we incurred significant bank debt and sold equity and debt securities in private placements in the years 1997 through 2006. We may need to raise additional funds for a number of uses, including:

- Working capital and operating activities;
- Implementing marketing and sales activities for our products;
- Maintaining and expanding research and development programs;
- Hiring additional qualified personnel; and
- Supporting an increased level of operations.

We may not be able to obtain additional funds in the most favorable terms. If we cannot raise needed funds on favorable terms, we may be required to delay, scale back or eliminate some aspects of our operations and we may not be able to:

- Develop new products;
- Enhance our existing products;
- Remain current with evolving industry standards;
- Fulfill our contractual obligations;
- Take advantage of future opportunities;
- Respond to competitive pressures or unanticipated requirements; or
- Retain our listing on the NASDAQ Capital Market.

If adequate funds are not available to us, our business, results of operations and financial condition will be materially and adversely affected. Any equity or debt financings may cause dilution to our then-existing shareholders and may increase our financing expenses. If additional funds are raised through the issuance of equity securities, the net tangible book value per share of our ordinary shares would decrease and the percentage ownership of then current shareholders would be diluted.

WE MAY NOT BE ABLE TO IMPLEMENT OUR GROWTH STRATEGY.

In line with our growth strategy, we have entered into teaming agreements and other co-operation agreements with Smiths Aerospace Electronic Systems, or Smiths, and Lockheed Martin Aerospace to increase our penetration into the aviation market. We are currently investing and intend to continue to invest significant resources to develop these relationships. Should our relationships fail to materialize into significant agreements or should we fail to work efficiently with such parties, we may lose sales and marketing opportunities and our business, results of operations and financial condition could be adversely affected.

As part of our growth strategy, we seek to acquire or invest in complementary, including competitive, businesses, products and technologies. We acquired certain assets and assumed certain liabilities related to the operations of Vectop Ltd., or Vectop, in the first quarter of 2005, and are seeking additional potential acquisition candidates. We currently have no commitments or agreements with respect to any future acquisitions or investments and we may not be able to consummate any acquisition or investment. Even if we do acquire or invest in these businesses, products or technology, the process of integrating acquired assets into our operations may result in unforeseen operating difficulties and expenditures and may absorb significant management attention that would otherwise be available for the ongoing development of our business.

In addition, we have limited experience in managing acquisitions and growth. Therefore, the anticipated benefits of any acquisition may not be realized. Furthermore, future acquisitions by us could result in potentially dilutive issuances of our equity securities, the incurrence of debt and contingent liabilities and impairment related to goodwill and other intangible assets, any of which could materially adversely affect our operating results and financial position. Acquisitions also involve other risks, including risks inherent in entering markets in which we have no or limited prior experience and the potential loss of key employees and the risk that we may experience difficulty or delays in obtaining necessary permits.

COMPETITION IN THE MARKET FOR AUTOMATED TEST EQUIPMENT AND AVIONICS EQUIPMENT IS INTENSE AND WE MAY BE UNABLE TO ACHIEVE PROFITABILITY.

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 automated test equipment market are Zaban in Israel, and Aerospatiale Avionique and Avtron abroad. Our principal competitors in the avionics market are Harris, Rockwell Collins, Honeywell, Elbit Systems Ltd., or Elbit, Israel Aircraft Industries Ltd., or IAI, R.S.L. Ltd., TEAC and Elisra Systems Ltd. We expect to continue to face competition from these and other competitors. Most, if not all, of our competitors are far larger, have substantially greater resources including financial, technological, marketing and distribution capabilities, and enjoy greater market recognition than we have. These competitors may be able to achieve greater economies of scale and may be less vulnerable to price competition than us. We may not be able to offer our products as part of integrated systems to the same extent as our competitors or successfully develop or introduce new products that are more cost effective or offer better performance than those of our competitors. Failure to do so could adversely affect our business, financial condition and results of operations.

OUR INITIATIVE OF PROVIDING MANUFACTURING SERVICES MAY NOT SUCCEED, AND AS A RESULT, WE MAY BE UNABLE TO ACHIEVE PROFITABILITY IN OUR BEIT-SHE'AN PRODUCTION FACILITY AND MAY BE FORCED TO SHUT DOWN ITS OPERATIONS.

In June 2000, we began to provide manufacturing services to original equipment manufacturers in Israel and the United States, using the manufacturing capabilities of our Beit-She'an plant. The market for our manufacturing services is highly competitive and we may not be able to compete effectively in this market. The cost of labor and the efficiency of the production equipment and production processes are crucial to our success in this market. Consequently, should we fail to maintain low labor costs, enhance our production equipment and develop new and more efficient production methods, we may have to shut down the operations of our Beit-She'an plant, which may harm our competitiveness and could adversely affect our business, results of operations and financial condition.

REDUCTION IN MILITARY BUDGETS WORLDWIDE MAY CAUSE A REDUCTION IN OUR REVENUES, WHICH WOULD ADVERSELY AFFECT OUR BUSINESS, OPERATING RESULTS AND FINANCIAL CONDITION.

A significant portion of our revenues is derived from the sale of products with military applications. These revenues, on a consolidated basis, totaled approximately $11.6 million, or 89% of revenue in 2006, $11.8 million, or 88% of revenues in 2005 and $11.8 million, or 83 % of revenues in 2004. The military budgets of a number of countries may be reduced in the future. Declines in military 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.

SALES OF OUR PRODUCTS ARE SUBJECT TO GOVERNMENTAL PROCUREMENT PROCEDURES AND PRACTICES; TERMINATION, REDUCTION OR MODIFICATION OF CONTRACTS WITH OUR CUSTOMERS, AND ESPECIALLY WITH THE GOVERNMENT OF ISRAEL, OR A SUBSTANTIAL DECREASE IN OUR CUSTOMERS' BUDGETS MAY ADVERSELY AFFECT OUR BUSINESS, OPERATING RESULTS AND FINANCIAL CONDITION.

Our military aviation products are sold primarily to government agencies

and authorities and government-owned companies, many of which have complex and time-consuming procurement procedures. A long 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 government 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.

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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 of contracts or subcontracts for convenience, among others. The termination, reduction or modification of our contracts or subcontracts with the Government of Israel in the event of change in requirements, policies or budgetary constraints would have an adverse effect on our business, operating results and financial condition.

IF WE DO NOT RECEIVE THE GOVERNMENTAL APPROVALS NECESSARY FOR THE EXPORT OF OUR PRODUCTS, OUR REVENUES MAY DECREASE. SIMILARLY IF OUR SUPPLIERS AND PARTNERS DO NOT RECEIVE THEIR GOVERNMENT APPROVALS NECESSARY TO EXPORT THEIR PRODUCTS OR DESIGNS TO US, OUR REVENUES MIGHT DECREASE AND WE MAY FAIL TO IMPLEMENT OUR GROWTH STRATEGY.

Under Israeli law, the export of certain of our products and know-how is subject to approval by the Israeli Ministry of Defense. To initiate sales proposals with regard to exports of our products and know-how and to export such products or know-how, we must obtain permits from the Ministry of Defense. We may not be able to receive in a timely manner all the required permits for which we 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 our third party production, certain co-development activities and procurements required for the performance of certain contracts, we must receive detailed technical designs, products or products' parts samples from our strategic partners or suppliers. We may not be able to receive all the required permits and/or licenses in a timely manner. Consequently, our revenues may decrease and we may fail to implement our growth strategy.

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.

A significant portion of our revenues is derived from a small number of customers. Our major customers during the three years ended December 31, 2006, were as follows:

	Percentage of Revenues		
	2004	2005	2006
Smiths Electronic Systems	5%	21%	38%
The Boeing Company	10%	3%	-
Israeli Ministry of Defense	19%	12%	5%
Israel Aviation Industries	6%	14%	20%
Portuguese Air Force	17%	-	2%
U.S.Navy	11%	-	-
Lockheed Martin	5%	12%	9%

Hindustan Aeronautics	-	5%	3%

We anticipate that a significant portion of our future revenues will continue to be derived from sales to a small number of customers. If our principal customers do not continue to purchase products from us at current levels or if such customers are not retained 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, financial condition and results of operations.

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WE DEPEND ON A LIMITED NUMBER OF SUPPLIERS OF COMPONENTS FOR OUR PRODUCTS AND IF WE ARE UNABLE TO OBTAIN THESE COMPONENTS WHEN NEEDED, WE WOULD EXPERIENCE DELAYS IN MANUFACTURING OUR PRODUCTS AND OUR FINANCIAL RESULTS COULD BE ADVERSELY AFFECTED.

We acquire most of the components for the manufacturing 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 components upon which we are dependent. Suppliers of some of the components for manufacturing require us to place orders with significant lead-time to assure supply in accordance with our manufacturing requirements. Inadequacy of operating funds may cause us to delays placement of such orders and may result in delays in supply. Delays in supply may significantly hurt our ability to fulfill our contractual obligations and may significantly hurt our business and result of operations. We may not be able to continue to obtain such components from these suppliers on satisfactory commercial terms. Temporary disruptions of our manufacturing operations would ensue if we were required to obtain components from alternative sources, which may have an adverse effect on our financial results.

WE RELY ON THE AIRLINE INDUSTRY AND THE CONTINUED FINANCIAL CRISES IN THIS INDUSTRY ADVERSELY AFFECTS OUR SALES.

The airline industry is an important market for our automated test equipment products and product support services. Our ability to achieve growth and profitability in this market depends in great measure on the economic condition of the commercial aviation industry. Since 2001, and especially following the tragic events of September 11, 2001, the airline industry has suffered from economic decline that caused the bankruptcy of several airlines and imposed financial constraints on the entire industry. As a result of these conditions, the sales of our automated test equipment products have materially decreased. The continuance of the crisis in the commercial aviation industry will adversely affect our business, financial condition and results of operations.

RAPID TECHNOLOGICAL CHANGES MAY ADVERSELY AFFECT THE MARKET ACCEPTANCE OF OUR PRODUCTS.

The avionics market in which we compete is subject to technological changes, introduction of new products, change in customer demands and evolving industry standards. Our future success will depend upon our ability to keep pace with technological developments and to timely address the increasingly sophisticated needs of our customers by supporting existing and new technologies and by developing and introducing enhancements to our current products and new products. We may not be successful in developing and marketing enhancements to our products that will respond to technological change, evolving industry standards or customer requirements. In addition, we may experience difficulties

that could delay or prevent the successful development, introduction and sale of such enhancements, and such enhancements may not adequately meet the requirements of the market and may not achieve any significant degrees of market acceptance. If release dates of our new products or enhancements are delayed or, if when released, they fail to achieve market acceptance, our business, operating results and financial condition would be materially adversely affected.

WE MAY ENCOUNTER DIFFICULTIES WITH OUR INTERNATIONAL OPERATIONS AND SALES.

While our principal executive offices are located in Israel, exports accounted for 67% of our sales in 2006, 59% of our sales in 2005, and 65% of our sales in 2004. This subjects us to many risks inherent in engaging in export international business, including:

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

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

CURRENCY EXCHANGE RATE FLUCTUATIONS IN THE WORLD MARKETS IN WHICH WE CONDUCT BUSINESS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

We may be adversely affected by fluctuations in currency exchange rates. While our revenues are generally denominated in U.S. dollars, a significant portion of our expenses is incurred in NIS. We do not currently engage in any currency hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our results of operations. If we were to determine that it was in our best interests to enter into any hedging transactions in the future, we may not be able to do so. Furthermore, such

transactions, if entered into, may not materially reduce the effect of fluctuations in foreign currency exchange rates on our results of operations. In addition, if for any reason exchange or price controls or other restrictions on the conversion of foreign currencies into NIS were imposed, our business could be adversely affected. In the future, such fluctuations may have a material adverse effect on revenues from international sales, operating expenses and consequently, on our business, operating results and financial condition.

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WE ARE DEPENDENT ON OUR SENIOR MANAGEMENT AND KEY PERSONNEL, IN PARTICULAR HERZLE BODINGER, OUR CHAIRMAN OF THE BOARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER, WHOSE LOSS COULD ADVERSELY AFFECT OUR BUSINESS.

Our future success depends in large part on the continued services of our senior management and key personnel. In particular, we are dependent on the services of Herzle Bodinger, our chairman, president and Chief Executive Officer. We do not carry key person life insurance on our senior management or key personnel. Any loss of the services of Herzle Bodinger, other members of senior management or other key personnel could negatively and materially effect our business.

OUR PROPRIETARY TECHNOLOGY IS DIFFICULT TO PROTECT AND UNAUTHORIZED USE OF OUR PROPRIETARY TECHNOLOGY BY THIRD PARTIES MAY IMPAIR OUR ABILITY TO COMPETE EFFECTIVELY.

Our success and ability to compete largely depends upon protecting our proprietary technology. We rely on a combination of trade secrets, copyright law and confidentiality, non-disclosure and assignment-of-inventions agreements to protect our proprietary technology. Except for a patent that relates to our ACE(TM) system, we do not have any patents.

OUR PRODUCTS MAY INFRINGE ON THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS.

Third parties may assert infringement claims against us or claims that we have violated a patent or infringed on a copyright, trademark or other proprietary right belonging to them. In addition, any infringement claim, even one without merit, could result in the expenditure of significant financial and managerial resources to defend.

THE STATUS OF OUR CHINESE SUBSIDIARY AND ITS JOINT VENTURE WITH BEIJING TIANZU FORESTRY COMPANY IS UNCERTAIN AND WE MAY BE REQUIRED TO INITIATE LITIGATION IN ORDER TO ENFORCE OUR RIGHTS.

Beijing Huarui Aircraft Components Maintenance and Services Co., Ltd. or CACS, our Chinese subsidiary, conducts its business in an approximately 16,000 square foot facility in Beijing that includes offices and test and repair facilities. The land for this facility was leased by Beijing Tianzu Forestry Company or Tianzu, the minority shareholder in CACS, from the Chinese government for 30 years. Under a joint venture agreement, and in consideration for its equity investment in CACS, Tianzu granted CACS usage rights in the land, constructed the buildings and granted CACS the ownership of these buildings. However, the transfer of the title to the land and the buildings has not been completed. Although Tianzu is legally obligated to complete such transfer of title to the land and the buildings, such transfer may not be completed and we may be required to initiate litigation in order to enforce our rights to receive title to the land and buildings.

IF WE ARE UNABLE TO SATISFY THE REQUIREMENTS OF SECTION 404 OF THE

SARBANES-OXLEY ACT, OR OUR INTERNAL CONTROLS OVER FINANCIAL REPORTING ARE NOT EFFECTIVE, THE RELIABILITY OF OUR FINANCIAL STATEMENTS MAY BE QUESTIONED AND OUR SHARE PRICE MAY SUFFER.

Section 404 of the Sarbanes-Oxley Act requires any company subject to the reporting requirements of the U.S. securities laws to do a comprehensive evaluation of its and its combined subsidiaries' internal controls over financial reporting. To comply with this statute, we will be required to document and test our internal control procedures and our management will be required to assess and issue a report concerning our internal controls over financial reporting for our annual report on Form 20-F for the fiscal year ending December 31, 2007. Our independent auditors will be required to issue an opinion on management's assessment of those matters for our annual report on Form 20-F for the fiscal year ending December 31, 2008. Our compliance with Section 404 of the Sarbanes-Oxley Act will first be tested in connection with the filing of our annual report on Form 20-F for the fiscal year ending December 31, 2007. The rules governing the standards that must be met for management to assess our internal controls over financial reporting are relatively new and complex and require significant documentation, testing and possible remediation to meet the detailed standards under the rules. During the course of its testing, our management may identify material weaknesses or significant deficiencies, which may not be remedied in time to meet the deadline imposed by the Sarbanes-Oxley Act. If our management cannot favorably assess the effectiveness of our internal controls over financial reporting or our auditors identify material weaknesses in our internal controls, investor confidence in our financial results may weaken, and our share price may suffer.

RISK FACTORS RELATED TO OUR ORDINARY SHARES

OUR SHARE PRICE HAS BEEN VOLATILE IN THE PAST AND MAY DECLINE IN THE FUTURE.

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

- Quarterly variations in our operating results;
- Operating results that vary from the expectations of securities analysts and investors;
- Changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- Announcements of technological innovations or new products by us or our competitors;
- Announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Changes in the status of our intellectual property rights;
- Announcements by third parties of significant claims or proceedings against us;

- Additions or departures of key personnel;
- Future sales of our ordinary shares;
- De-listing of our shares from the NASDAQ Capital Market; and
- Stock market price and volume fluctuations.

Domestic and international stock markets often experience extreme price and volume fluctuations. Market fluctuations, as well as general political and economic conditions, such as 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 our ordinary shares.

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

SUBSTANTIAL FUTURE SALES OF OUR ORDINARY SHARES MAY DEPRESS OUR SHARE PRICE.

If our shareholders sell substantial amounts of our ordinary shares, including shares registered under effective registration statements and shares issuable upon the exercise of outstanding warrants, or convertible notes, or if the perception exists that our shareholders may sell a substantial number of our ordinary shares, the market price of our ordinary shares may fall. Any substantial sales of our shares in the public market also might make it more difficult for us to sell equity or equity related securities in the future at a time, in a place and on terms we deem appropriate.

WE DO NOT INTEND TO PAY DIVIDENDS.

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

RISK FACTORS RELATED TO LOCATION IN ISRAEL

CONDUCTING BUSINESS IN ISRAEL ENTAILS SPECIAL RISKS.

We are incorporated under the laws of, and our executive offices, manufacturing plant and research and development facilities are located in, the State of Israel. Although a large portion of our sales are made to customers outside Israel, we are nonetheless directly affected by the political, economic and military conditions affecting Israel. Specifically, we could be adversely affected by 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.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, 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 through 2006. In July 2006, an armed conflict began between Israel and Hezbollah forces in Lebanon, which involved rocket attacks on populated areas in the northern parts of Israel. On August 14, 2006, a cease-fire between Hezbollah and Israel took effect. This situation has had an adverse effect on Israel's economy, primarily in the geographical areas directly harmed by this conflict. Any future armed conflict, political instability or violence in the region may have a negative effect on those research and development activities that we conduct in Israel and may adversely affect our share price.

Some of our employees 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. Our operations could be disrupted by the absence for a significant period of key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

OUR RESULTS OF OPERATIONS MAY BE NEGATIVELY AFFECTED BY THE OBLIGATION OF OUR PERSONNEL TO PERFORM MILITARY SERVICE.

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

WE MAY BE ADVERSELY AFFECTED IF THE RATE OF INFLATION IN ISRAEL EXCEEDS THE RATE OF DEVALUATION OF THE NIS AGAINST THE U.S. DOLLAR.

In 2006, approximately 31% of our expenses were in U.S. dollar of U.S. dollar-linked NIS, in 2005 approximately 38% of our expenses were in U.S. dollars or U.S. dollar-linked, in 2004 approximately 34% of our expenses were in U.S. dollars or U.S. dollar-linked NIS. In each of these years, virtually all our remaining expenses were in unlinked NIS. Our expenses that are denominated in U.S. dollars or paid in Israeli currency linked to the U.S. dollar-NIS exchange rate are influenced by the extent to which any inflation in Israel is not offset (or is offset on a lagging basis) by the devaluation of the NIS in relation to the U.S. dollar. In 2002, the rate of devaluation of the NIS against the dollar exceeded the rate of inflation in Israel, which benefited us. In 2004, 2005 and 2006, the rate of inflation was 1.2%, 2.4% and 0.9% respectively, and the NIS was reevaluated vis-a-vis the dollar. These changes, as well as the recent world-wide devaluation of the U.S. dollar, have affected our operations, financial condition and results of operations by decreasing the NIS equivalents

of our U.S. denominated revenues and increasing the U.S. dollar equivalents of our NIS denominated expenses. We may be adversely affected in the future if the rate of inflation in Israel exceeds the devaluation of the NIS against the U.S. dollar or if the timing of this devaluation lags behind increases in inflation in Israel.

SERVICE AND ENFORCEMENT OF LEGAL PROCESS ON US AND OUR DIRECTORS AND OFFICERS MAY BE DIFFICULT TO OBTAIN.

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

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

PROVISIONS OF ISRAELI LAW MAY DELAY, PREVENT OR MAKE THE ACQUISITION OF OUR COMPANY DIFFICULT, WHICH COULD PREVENT A CHANGE OF CONTROL AND THEREFORE DEPRESS THE PRICE OF OUR SHARES.

Provisions of Israeli corporate and tax law may have the effect of delaying, preventing or making more difficult a merger with, or other acquisition of, us. This could cause our ordinary shares to trade at prices below the price for which third parties might be willing to pay to gain control of us. Third parties who are otherwise willing to pay a premium over prevailing market prices to gain control of us may be unable or unwilling to do so because of these provisions of Israeli law.

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.

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our memorandum of association, our articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith 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 shareholder who knows that it possesses the power to determine the outcome of a shareholder vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revision in recent years, there is little case law

available to assist in understanding the implications of these provisions that govern shareholder behavior.

AS A FOREIGN PRIVATE ISSUER WHOSE SHARES ARE LISTED ON THE NASDAQ CAPITAL MARKET, WE MAY FOLLOW CERTAIN HOME COUNTRY CORPORATE GOVERNANCE PRACTICES INSTEAD OF CERTAIN NASDAQ REQUIREMENTS.

As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Marketplace Rules, including the composition of our board of directors, director nomination procedure, compensation of officers and quorum at shareholders meetings. In addition, we may follow Israeli law instead of the NASDAQ Marketplace Rules that require that we obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of our company, certain transactions other than a public offering involving issuances of a 19.9% or more interest in our company and certain acquisitions of the stock or assets of another company.

CAPITALIZATION AND INDEBTEDNESS

The table below sets forth the capitalization of our company as of December 31, 2006.

	DECEMBER 31, 2006 (in thousands)
Ordinary shares of NIS 0.015 par value, 16,333,333 shares authorized; 8,723,509 shares issued and outstanding	116
Additional paid-in capital	67,239
Accumulated deficit	(61,281)
Total shareholders' equity	$ 6,074

(*) The fair value of the warrants was calculated based on the Black-Scholes pricing model.

REASONS FOR THE OFFER AND USE OF PROCEEDS

We will not receive any of the proceeds from the sale by the selling shareholders of our ordinary shares. We will, however, receive the proceeds from the exercise of the warrants issued to selling shareholders if and when they are exercised. We have agreed to bear all expenses relating to the registration of the ordinary shares registered pursuant to the registration statements of which this prospectus is a part.

MARKET PRICE DATA

Our ordinary shares trade on the NASDAQ Capital Market under the symbol

RADI. The following table sets forth, for each of the full financial quarters in the years indicated, the high ask and low bid prices of our ordinary shares, as quoted on the NASDAQ Capital Market, as applicable. In order to regain compliance with the NASDAQ Marketplace requirement that the minimum bid price of our ordinary shares exceed $1.00 per share for 30 consecutive days, our shareholders approved an one share for three shares reverse split on January 29, 2007. The reverse split took effect on February 14, 2007. On April 12, 2007 the closing price of an ordinary share on the NASDAQ Capital Market was $2.46 and we are presently in compliance with the NASDAQ listing requirements. The following tables reflect the reverse stock split as if it took place prior to periods reflected in the tables.

	HIGH	LOW
2004		
First Quarter	$ 6.24	$ 3.93
Second Quarter	14.34	3.90
Third Quarter	7.80	3.30
Fourth Quarter	5.31	3.45
2005		
First Quarter	$ 5.64	$ 4.38
Second Quarter	5.22	3.87
Third Quarter	4.56	3.75
Fourth Quarter	3.99	3.18
2006		
First Quarter	$ 3.90	$ 2.79
Second Quarter	2.85	1.95
Third Quarter	3.03	2.16
Fourth Quarter	2.67	1.98
2007		
First Quarter	$ 3.45	$ 1.92

MONTHLY STOCK INFORMATION

The following table sets forth, for each of the most recent six months, the high ask and low bid prices of our ordinary shares, as quoted on the NASDAQ Capital Market.

MONTH	HIGH	LOW
October 2006	$ 2.67	$ 2.34
November 2006	2.43	2.10
December 2006	2.19	1.98
January 2007	3.00	1.95
February 2007	2.55	1.98
March 2007	2.94	2.01

SELLING SHAREHOLDERS

The ordinary shares being offered by the selling shareholders were issued pursuant to a securities purchase agreement, dated as of July 9, 2004, and are issuable upon conversion of the convertible notes and upon exercise of the warrants. We are registering the ordinary shares in order to permit the selling shareholders to offer the shares for resale from time to time. Except for the

ownership of the ordinary shares, the convertible notes and the warrants issued pursuant to the securities purchase agreement, the selling shareholders have not had any material relationship with us within the past three years.

The table below lists the selling shareholders and other information regarding the beneficial ownership of the ordinary shares by each of the selling shareholders. The second column lists the number of ordinary shares beneficially owned by each selling shareholder, based on its ownership of the ordinary shares, convertible notes and warrants, as of the date of this prospectus, assuming conversion of all convertible notes and exercise of the warrants held by the selling shareholders on that date, without regard to any limitations on conversions or exercise.

The third column lists the ordinary shares being offered by this prospectus by the selling shareholders.

In accordance with the terms of registration rights agreements with the selling shareholders, this prospectus generally covers the resale of at least sum of (i) the number of ordinary shares initially issued pursuant to the securities purchase agreement and (ii) 130% of the sum of (x) the number of ordinary shares issuable upon conversion of the convertible notes as of the trading day immediately preceding the date the registration statement is initially filed with the SEC, (y) the number of ordinary shares issuable upon exercise of the related warrants as of the trading day immediately preceding the date the registration statement is initially filed with the SEC. Because the conversion price of the convertible notes and the exercise price of the warrants may be adjusted, the number of shares that will actually be issued may be more or less than the number of shares being offered by this prospectus. The fourth column assumes the sale of all of the shares offered by the selling shareholders pursuant to this prospectus.

Under the terms of the convertible notes and the warrants, a selling shareholder may not convert the convertible notes, or exercise the warrants, to the extent such conversion or exercise would cause such selling shareholder, together with its affiliates, to beneficially own a number of ordinary shares which would exceed 4.99% of our then outstanding ordinary shares following such conversion or exercise, excluding for purposes of such determination ordinary shares issuable upon conversion of the convertible notes which have not been converted and upon exercise of the warrants which have not been exercised. The number of shares in the second column does not reflect this limitation. The selling shareholders may sell all, some or none of their shares in this offering. See "Plan of Distribution."

NAME OF SELLING SHAREHOLDER	NUMBER OF ORDINARY SHARES BENEFICIALLY OWNED PRIOR TO OFFERING	MAXIMUM NUMBER OF ORDINARY SHARES TO BE SOLD PURSUANT TO THIS PROSPECTUS	NUMBER OF ORDINARY SHARES BENEFICIALLY OWNED AFTER OFFERING
Smithfield Fiduciary LLC (1)(6)	642,246	437,460	204,786
Omicron Master Trust (2)(6)	161,450	47,185	114,264

Iroquois Master Fund Ltd.(3)(6)	620,743	239,236	381,507
Portside Growth and Opportunity Fund (4)(6)	413,443	246,202	167,241
Rockmore Investment Master Fund Ltd. (5)(6)	108,189	55,212	52,976
Scot J. Cohen	12,000	12,000	-
BL Cubed LLC (7)	41,666	41,666	-
Frederick Berdon	20,833	20,833	-
John Kaufman	10,416	10,416	-

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(1) Highbridge Capital Management, LLC ("Highbridge"), is the trading manager of Smithfield Fiduciary LLC ("Smithfield") and consequently has voting control and investment discretion over the ordinary shares held by Smithfield. Glenn Dubin and Henry Swieca control Highbridge. Each of Highbridge and Messrs. Dubin and Swieca disclaims beneficial ownership of the shares held by Smithfield.

(2) Omicron Capital, L.P., a Delaware limited partnership, ("Omicron Capital"), serves as investment manager to Omicron Master Trust, a trust formed under the laws of Bermuda ("Omicron"), Omicron Capital, Inc., a Delaware corporation ("OCI"), serves as general partner of Omicron Capital, and Winchester Global Trust Company Limited ("Winchester") serves as the trustee of Omicron. By reason of such relationships, Omicron Capital and OCI may be deemed to share dispositive power over the ordinary shares owned by Omicron, and Winchester may be deemed to share voting and dispositive power over the ordinary shares owned by Omicron. Omicron Capital, OCI and Winchester disclaim beneficial ownership of such ordinary shares. As of the date of this prospectus, Mr. Olivier H. Morali, an officer of OCI, and Mr. Bruce T. Bernstein, a consultant to OCI, have delegated authority from the board of directors of OCI regarding the portfolio management decisions with respect to the ordinary shares owned by Omicron. By reason of such delegated authority, Messrs. Morali and Bernstein may be deemed to share dispositive power over the ordinary shares owned by Omicron. Messrs. Morali and Bernstein disclaim beneficial ownership of such ordinary shares and neither of such persons has any legal right to maintain such delegated authority. No other person has sole or shared voting or dispositive power with respect to the ordinary shares being offered by Omicron, as those terms are used for purposes under Regulation 13D-G of the Securities Exchange Act of 1934, as amended. Omicron and Winchester are not "affiliates" of one another, as that term is used for purposes of the Exchange Act or of any other person named in this prospectus as a selling stockholder. No person or "group" (as that term is used in Section 13(d) of the Exchange Act or the SEC's Regulation 13D-G) controls Omicron and Winchester.

(3) Joshua Silverman has voting control and investment discretion over securities held by Iroquois Master Fund Ltd. Mr. Silverman disclaims beneficial ownership of the ordinary shares held by Iroquois Master Fund Ltd.

(4) Ramius Capital Group, LLC ("Ramius Capital") is the investment adviser of Portside Growth & Opportunity Fund ("Portside") and consequently has voting control and investment discretion over securities held by Portside. Ramius Capital disclaims beneficial ownership of the shares held by Portside. Peter A. Cohen, Morgan B. Stark, Thomas W. Strauss and Jeffrey M. Solomon are the sole managing members of C4S & Co., LLC, the sole managing member of Ramius Capital. As a result, Messrs. Cohen, Stark, Strauss and Solomon may be considered beneficial owners of any ordinary shares deemed to be beneficially owned by Ramius Capital. Messrs. Cohen, Stark, Strauss and Solomon disclaim beneficial ownership of these ordinary shares. Ramius Capital has informed us in writing that it is an affiliate of a registered broker-dealer. Ramius Capital has further informed us in writing that it acquired its ordinary shares, and its securities exercisable or convertible into ordinary shares, that are being registered under the registration statement of which this prospectus forms a part, in the ordinary course of business and that at the time it purchased such shares and securities it did not have any agreements, plans or understandings, directly or indirectly, with any person to distribute the shares or securities.

(5) Rockmore Capital, LLC ("Rockmore Capital") and Rockmore Partners, LLC ("Rockmore Partners"), each a limited liability company formed under the laws of the State of Delaware, serve as the investment manager and general partner, respectively, to Rockmore Investments (US) LP, a Delaware limited partnership, which invests all of its assets through Rockmore Investment Master Fund Ltd., an exempted company formed under the laws of Bermuda ("Rockmore Master Fund"). By reason of such relationships, Rockmore Capital and Rockmore Partners may be deemed to share dispositive power over the ordinary shares owned by Rockmore Master Fund. Rockmore Capital and Rockmore Partners disclaim beneficial ownership of such ordinary shares. Rockmore Partners has delegated authority to Rockmore Capital regarding the portfolio management decisions with respect to the ordinary shares owned by Rockmore Master Fund and, as of the date of this prospectus, Mr. Bruce T. Bernstein and Mr. Brian Daly, as officers of Rockmore Capital, are responsible for the portfolio management decisions of the ordinary shares owned by Rockmore Master Fund. By reason of such authority, Messrs. Bernstein and Daly may be deemed to share dispositive power over the ordinary shares owned by Rockmore Master Fund. Messrs. Bernstein and Daly disclaim beneficial ownership of such ordinary shares and neither of such persons has any legal right to maintain such authority. No other person has sole or shared voting or dispositive power with respect to the ordinary shares as those terms are used for purposes under Regulation 13D-G of the Securities Exchange Act of 1934, as amended. No person or "group" (as that term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended, or the SEC's Regulation 13D-G) controls Rockmore Master Fund.

(6) The total number of shares does not include one share that was excluded due to rounding.

(7) Mel C. Lifshitz, a member of BL Cubed LLC has voting control and investment discretion over securities held by BL Cubed LLC. Mr. Lifshitz disclaims beneficial ownership of the ordinary shares held by BL Cubed LLC.

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OFFER STATISTICS, EXPECTED TIME TABLE AND PLAN OF DISTRIBUTION

We are registering the ordinary shares issued and issuable upon conversion

of the convertible notes and upon exercise of the warrants to permit the resale of these ordinary shares by the holders of the ordinary shares, convertible notes and warrants from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling shareholders of the ordinary shares. We will bear all fees and expenses incident to our obligation to register the ordinary shares.

The selling shareholders may sell all or a portion of the ordinary shares beneficially owned by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the ordinary shares are sold through underwriters or broker-dealers, the selling shareholders will be responsible for underwriting discounts or commissions or agent's commissions. The ordinary shares may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions,

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- sales pursuant to Rule 144;
- broker-dealers may agree with the selling securityholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

If the selling shareholders effect such transactions by selling ordinary shares to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts,

concessions or commissions from the selling shareholders or commissions from purchasers of the ordinary shares for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the ordinary shares or otherwise, the selling shareholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the ordinary shares in the course of hedging in positions they assume. The selling shareholders may also sell ordinary shares short and deliver ordinary shares covered by this prospectus to close out short positions. The selling shareholders may also loan or pledge ordinary shares to broker-dealers that in turn may sell such shares.

The selling shareholders may pledge or grant a security interest in some or all of the convertible notes, warrants or ordinary shares owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the ordinary shares from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933, as amended, amending, if necessary, the list of selling shareholders to include the pledgee, transferee or other successors in interest as selling shareholders under this prospectus. The selling shareholders also may transfer and donate the ordinary shares in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling shareholders and any broker-dealer participating in the distribution of the ordinary shares may be deemed to be "underwriters" within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the ordinary shares is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of ordinary shares being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling shareholders and any discounts, commissions or concessions allowed or reallowed or paid to broker-dealers.

Under the securities laws of some states, the ordinary shares may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the ordinary shares may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling shareholder will sell any or all of the ordinary shares registered pursuant to the shelf registration statement, of which this prospectus forms a part.

The selling shareholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the ordinary shares by the selling shareholders and any other participating person. Regulation M may also restrict the ability of any person engaged in the distribution of the ordinary shares to engage in market-making activities with respect to the ordinary shares. All of the foregoing may affect the marketability of the ordinary shares and the ability of any person or entity to engage in market-making activities with respect to the ordinary shares.

We will pay all expenses of the registration of the ordinary shares pursuant to the registration rights agreement; provided, however, that a selling shareholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling shareholders against liabilities, including some liabilities under the Securities Act, in accordance with the registration rights agreements, or the selling shareholders will be entitled to contribution. We may be indemnified by the selling shareholders against civil liabilities, including liabilities under the Securities Act, that may arise from any written information furnished to us by the selling shareholder specifically for use in this prospectus, in accordance with the related registration rights agreements, or we may be entitled to contribution.

Once sold under the shelf registration statement, of which this prospectus forms a part, the ordinary shares will be freely tradable in the hands of persons other than our affiliates.

EXPENSES ASSOCIATED WITH THE REGISTRATION

We have agreed to bear all expenses relating to the registration of our ordinary shares registered pursuant to the registration statement of which this prospectus is a part. We estimate these aggregate expenses to be approximately $5,000.

FOREIGN EXCHANGE CONTROLS AND OTHER LIMITATIONS

The Israeli Currency Control Law, 1978 imposes certain limitations concerning foreign currency transactions and transactions between Israeli and non-Israeli residents, which limitations may be regulated or waived by the Controller of Foreign Exchange at the Bank of Israel, through "general" and "special" permits. In May 1998, a new "general permit" was issued pursuant to which substantially all transactions in foreign currency are permitted. Any dividends or other distributions paid in respect of ordinary shares and any amounts payable upon the dissolution, liquidation or winding up of the affairs of RADA, as well as the proceeds of any sale in Israel of RADA'S securities to an Israeli resident are freely repatriable into non-Israeli currencies at the rate of exchange prevailing at the time of conversion, provided that Israeli income tax has been paid on (or withheld from) such payments. Because exchange rates between the NIS and the U.S. dollar fluctuate continuously, U.S. shareholders will be subject to any such currency fluctuation during the period from when such dividend is declared through the date payment is made in U.S. dollars.

The State of Israel does not restrict in any way the ownership or voting of ordinary shares by non-residents of Israel, except with respect to subjects of countries that are in a state of war with Israel.

EXPERTS

The consolidated financial statements of Rada Electronic Industries Ltd. appearing in the Company's Annual Report on Form 20-F for the year ended December 31, 2006, have been audited by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, independent registered public accounting firm, as set forth in their report thereon and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

LEGAL MATTERS

Certain legal matters in connection with the registration of the ordinary shares hereunder with respect to Israeli law will be passed upon for us by S. Friedman & Co., Advocates, Tel Aviv, Israel, our Israeli counsel.

MATERIAL CHANGES

Except as otherwise described our Annual Report on Form 20-F for the fiscal year ended December 31, 2006 and incorporated by reference herein, no reportable material changes have occurred since December 31, 2006.

WHERE YOU CAN BEST FIND MORE INFORMATION; INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

This prospectus is a part of a registration statement on Form F-3, Registration No. 333- 117954, which we filed with the Securities and Exchange Commission under the Securities Act of 1933. As permitted by the rules and regulations of the SEC, this prospectus does not contain all of the information contained in the registration statement and the exhibits and schedules thereto. As such we make reference in this prospectus to the registration statement and to the exhibits and schedules thereto. For further information about us and about the securities we hereby offer, you should consult the registration statement and the exhibits and schedules thereto. You should be aware that statements contained in this prospectus concerning the provisions of any documents filed as an exhibit to the registration statement or otherwise filed with the SEC are not necessarily complete, and in each instance reference is made to the copy of such document so filed. Each such statement is qualified in its entirety by such reference.

We file annual and special reports and other information with the Securities and Exchange Commission (Commission File Number 0-15375). These filings contain important information which does not appear in this prospectus. For further information about us, you may read and copy these filings at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330, or by visiting the Securities and Exchange Commission's website at http://www.sec.gov, and may obtain copies of our filings from the public reference room by calling (202) 942-8090.

The SEC allows us to "incorporate by reference" information into this prospectus, which means that we can disclose important information to you by referring you to other documents which we have filed or will file with the SEC. We are incorporating by reference in this prospectus the documents listed below and all amendments or supplements we may file to such documents, as well as any future filings we may make with the SEC on Form 20-F under the Exchange Act before the time that all of the securities offered by this prospectus have been sold or de-registered.

- Our Annual Report on Form 20-F for the fiscal year ended December 31, 2006;
- The description of our Ordinary Shares contained in our Registration Statement on Form 8-A, including any amendment or reports for the purpose of updating such description.

In addition, we may incorporate by reference into this prospectus our reports on Form 6-K filed after the date of this prospectus (and before the time that all of the securities offered by this prospectus have been sold or de-registered) if we identify in the report that it is being incorporated by reference in this prospectus.

Certain statements in and portions of this prospectus update and replace information in the above listed documents incorporated by reference. Likewise, statements in or portions of a future document incorporated by reference in this prospectus may update and replace statements in and portions of this prospectus or the above listed documents.

We shall provide you without charge, upon your written or oral request, a copy of any of the documents incorporated by reference in this prospectus, other than exhibits to such documents which are not specifically incorporated by reference into such documents. Please direct your written or telephone requests to RADA Electronic Industries Ltd. 7 Giborei Israel Street, Netanya 42504, Israel. Attn: Elan Sigal, Chief Financial Officer, telephone number (972)(9) 892-1129. You may also obtain information about us by visiting our website at www.rada.com. Information contained in our website is not part of this prospectus.

We are an Israeli company and are a "foreign private issuer" as defined in Rule 3b-4 under the Securities Exchange Act of 1934. As a result, (i) our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, (ii) transactions in our equity securities by our officers and directors are exempt from Section 16 of the Exchange Act, and (iii) until November 4, 2002, we were not required to make, and did not make, our SEC filings electronically, so that those filings are not available on the SEC's Web site. However, since that date, we have been making all required filings with the SEC electronically, and these filings are available over the Internet at the SEC's Web site at http://www.sec.gov.

In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We make available annually to our shareholders an annual report containing financial statements that have been examined and reported on, with an opinion expressed by, an independent registered public accounting firm. We prepare our financial statements in U.S. dollars and in accordance with accounting principles generally accepted in the U.S.

ENFORCEABILITY OF CIVIL LIABILITIES

Service of process upon us and upon our directors and officers and the Israeli experts named in this prospectus, most of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because substantially all of our assets and substantially all of our directors and officers are located outside the United States, any judgment obtained in the United States against us or any of our directors and officers may not be collectible within the United States.

We have been informed by our legal counsel in Israel, S. Friedman & Co. Advocates, that there is doubt as to the enforceability of civil liabilities under the Securities Act and the Exchange Act in original actions instituted in Israel. However, subject to specified time limitations, Israeli courts may enforce a United States final executory judgment in a civil matter including a monetary or compensatory judgment in a non-civil matter, obtained after due process before a court of competent jurisdiction according to the laws of the state in which the judgment is given and the rules of private international law

currently prevailing in Israel, the laws of which do not prohibit the enforcement of judgment of Israeli courts, provided that:

- the judgment is enforceable in the state in which it was given;
- adequate service of process has been effected and the defendant has had a reasonable opportunity to present his arguments and evidence;
- the judgment and the enforcement thereof are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties; and
- an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the foreign court and the judgment is no longer appealable and the judgment is executory in the country in which it was given.

We have irrevocably appointed Puglisi & Associates as our agent to receive service of process in any action against us in the state and federal courts sitting in the City of New York, Borough of Manhattan arising out of this offering or any purchase or sale of securities in connection therewith.

If a foreign judgment is enforced by an Israeli court, it generally will be payable in Israeli currency, which can then be converted into non-Israeli currency and transferred out of Israel. The usual practice in an action before an Israeli court to recover an amount in a non-Israeli currency is for the Israeli court to render judgment for the equivalent amount in Israeli currency at the rate of exchange in force on the date thereof, but the judgment debtor may make payment in foreign currency. Pending collection, the amount of the judgment of an Israeli court stated in Israeli currency ordinarily will be linked to the Israeli consumer price index plus interest at the annual statutory rate set by Israeli regulations prevailing at such time. Judgment creditors must bear the risk of unfavorable exchange rates.

RADA ELECTRONIC INDUSTRIES LTD.

1,110,214 ORDINARY SHARES

PROSPECTUS

You should rely only on the information incorporated by reference or provided in this prospectus. We have not authorized anyone to provide you with different information. We are not making any offer to sell or buy any of the securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other

than the date that appears below.

APRIL 12, 2007

="margin-top:6pt; margin-bottom:0pt; font-size:10pt; font-family:Times New Roman">The accompanying consolidated balance sheet as of March 31, 2015, which has been derived from audited financial statements, and the accompanying unaudited interim consolidated financial statements of Nicholas Financial, Inc. (including its subsidiaries, the Company) have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q pursuant to the Securities and Exchange Act of 1934, as amended in Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements, although the Company believes that the disclosures made are adequate to ensure the information is not misleading. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for interim periods are not necessarily indicative of the results that may be expected for the year ending March 31, 2016. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and accompanying notes thereto included in the Company s Annual Report on Form 10-K for the year ended March 31, 2015 as filed with the Securities and Exchange Commission on June 15, 2015. The March 31, 2015 consolidated balance sheet included herein has been derived from the March 31, 2015 audited consolidated balance sheet included in the aforementioned Form 10-K.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses on finance receivables and the fair value of interest rate swap agreements.

2. Revenue Recognition

Finance receivables consist of automobile finance installment contracts (Contracts) and direct consumer loans (Direct Loans). Interest income on finance receivables is recognized using the interest method. Accrual of interest income on finance receivables is suspended when a loan enters bankruptcy status, is contractually delinquent for 60 days or more or the collateral is repossessed, whichever is earlier. Chapter 13 bankrupt accounts are accounted for under the cost-recovery method. Interest income on Chapter 13 bankrupt accounts does not resume until all principal amounts are recovered (see Note 4).

A dealer discount represents the difference between the finance receivable, net of unearned interest, of a Contract, and the amount of money the Company actually pays for the Contract. The discount negotiated by the Company is a function of the lender, the wholesale value of the vehicle and competition in any given market. In making decisions regarding the purchase of a particular Contract the Company considers the following factors related to the borrower: place and length of residence; current and prior job status; history in making installment payments for automobiles; current income; and credit history. In addition, the Company examines its prior experience with Contracts purchased from the dealer from which the Company is purchasing the Contract, and the value of the automobile in relation to the purchase price and the term of the Contract. The entire amount of discount is amortized as an adjustment to yield using the interest method over the life of the loan. The average dealer discount associated with new volume for the six months ended September 30, 2015 and 2014 was 7.55% and 8.16%, respectively in relation to the total amount financed.

Gross finance receivables represent principal balance plus unearned income, excluding unearned income from Chapter 13 bankrupt accounts. The amount of future unearned income is computed as the product of the Contract rate, the

Contract term, and the Contract amount.

Deferred revenues consist primarily of commissions received from the sale of ancillary products. These products include automobile warranties, roadside assistance programs, accident and health insurance, credit life insurance, and involuntary unemployment insurance. These commissions are amortized over the life of the contract using the interest method.

The Company s net costs for originating direct loans are recognized as an adjustment to the yield and are amortized over the life of the loan using the interest method.

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

(Unaudited)

3. Earnings Per Share

Basic earnings per share is calculated by dividing the reported net income for the period by the weighted average number of shares of common stock outstanding. Diluted earnings per share includes the effect of dilutive options and other share awards. Basic and diluted earnings per share have been computed as follows:

	Three months ended September 30,		**Six months ended September 30,**	
	2015	**2014**	**2015**	**2014**
Numerator for earnings per share net income	**$ 3,256,341**	$ 4,329,701	**$ 6,926,802**	$ 9,238,889
Denominator:				
Denominator for basic earnings per share weighted average shares	**7,621,949**	12,190,800	**7,619,136**	12,184,581
Effect of dilutive securities:				
Stock options and other share awards	**130,312**	173,903	**128,722**	186,254
Denominator for diluted earnings per share	**7,752,261**	12,364,703	**7,747,858**	12,370,835
Earnings per share:				
Basic	**$ 0.43**	$ 0.36	**$ 0.91**	$ 0.76
Diluted	**$ 0.42**	$ 0.35	**$ 0.89**	$ 0.75

For the three months ended September 30, 2015 and 2014, potential shares of common stock from stock options totaling 160,217 and 92,663, respectively, were not included in the diluted earnings per share calculation because their effect is anti-dilutive. For the six months ended September 30, 2015 and 2014, potential shares of common stock from stock options totaling 157,623 and 58,989, respectively, were not included in the diluted earnings per share calculation because their effect is anti-dilutive. Please see Note 10 Tender Offer for information regarding the decrease of the weighted average shares for the three and six months ended September 30, 2015.

4. Finance Receivables

Finance receivables consist of automobile finance installment Contracts and Direct Loans and are detailed as follows:

	September 30, 2015	**March 31, 2015**
Finance receivables, gross contract	**$ 491,064,286**	$ 457,974,758
Unearned interest	**(152,502,120)**	(139,262,996)
Finance receivables, net of unearned interest	**338,562,166**	318,711,762
Unearned dealer discounts	**(18,719,104)**	(17,779,690)
Finance receivables, net of unearned interest and unearned dealer discounts	**319,843,062**	300,932,072
Allowance for credit losses	**(11,733,765)**	(12,028,012)
Finance receivables, net	**$ 308,109,297**	$ 288,904,060

The terms of the Contracts range from 12 to 72 months and the Direct Loans range from 6 to 60 months. The Contracts and Direct Loans bear a weighted average effective interest rate of 22.77% and 25.81% as of September 30, 2015, respectively and 22.86% and 26.14% as of March 31, 2015, respectively.

Finance receivables consist of Contracts and Direct Loans, each of which comprises a portfolio segment. Each portfolio segment consists of smaller balance homogeneous loans which are collectively evaluated for impairment.

Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

(Unaudited)

4. Finance Receivables (continued)

The following table sets forth a reconciliation of the changes in the allowance for credit losses on Contracts:

	Three months ended September 30,		Six months ended September 30,	
	2015	**2014**	**2015**	**2014**
Balance at beginning of period	**$ 11,523,526**	$ 12,933,905	**$ 11,325,222**	$ 12,889,082
Current period provision	**6,078,219**	5,067,689	**10,964,689**	9,141,087
Losses absorbed	**(7,347,395)**	(7,046,790)	**(12,870,224)**	(11,896,413)
Recoveries	**699,494**	987,890	**1,534,157**	1,808,938
Balance at end of period	**$ 10,953,844**	$ 11,942,694	**$ 10,953,844**	$ 11,942,694

The Company purchases Contracts from automobile dealers at a negotiated price that is less than the original principal amount being financed by the purchaser of the automobile. The Contracts are predominately for used vehicles. As of September 30, 2015, the average model year of vehicles collateralizing the portfolio was a 2007 vehicle. The average loan to value ratio, which expresses the amount of the Contract as a percentage of the value of the automobile, is approximately 97%. The Company utilizes a static pool approach to track portfolio performance. If the allowance for credit losses is determined to be inadequate for a static pool, then an additional charge to income through the provision is used to maintain adequate reserves based on management s evaluation of the risk inherent in the loan portfolio, the composition of the portfolio, and current economic conditions. Such evaluation, considers among other matters, the estimated net realizable value of the underlying collateral, economic conditions, historical loan loss experience, management s estimate of probable credit losses and other factors that warrant recognition in providing for an adequate allowance for credit losses.

The following table sets forth a reconciliation of the changes in the allowance for credit losses on Direct Loans:

	Three months ended September 30,		Six months ended September 30,	
	2015	**2014**	**2015**	**2014**
Balance at beginning of period	**$ 754,757**	$ 706,960	**$ 702,789**	$ 590,278
Current period provision	**98,901**	86,546	**201,867**	244,963

Losses absorbed	**(81,310)**	(65,015)	**(140,286)**	(119,115)
Recoveries	**7,573**	6,009	**15,551**	18,374
Balance at end of period	**$ 779,921**	$ 734,500	**$ 779,921**	$ 734,500

Direct Loans are originated directly between the Company and the consumer. These loans are typically for amounts ranging from $1,000 to $9,000 and are generally secured by a lien on an automobile, watercraft or other permissible tangible personal property. The majority of Direct Loans are originated with current or former customers under the Company s automobile financing program. The typical Direct Loan represents a significantly better credit risk than our typical Contract due to the customer s historical payment history with the Company. In deciding whether or not to make a loan, the Company considers the individual s credit history, job stability, income and impressions created during a personal interview with a Company loan officer. Additionally, because most of Direct Loans made by the Company to date have been made to borrowers under Contracts previously purchased by the Company, the payment history of the borrower under the Contract is a significant factor in making the loan decision. As of September 30, 2015, loans made by the Company pursuant to its Direct Loan program constituted approximately 2% of the aggregate principal amount of the Company s loan portfolio.

Changes in the allowance for credit losses for both Contracts and Direct Loans were driven by current economic conditions and trends over several reporting periods which are useful in estimating future losses and overall portfolio performance.

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

(Unaudited)

4. Finance Receivables (continued)

A performing account is defined as an account that is less than 61 days past due. A non-performing account is defined as an account that is contractually delinquent for 61 days or more and the accrual of interest income is suspended. When an account is 120 days contractually delinquent, the account is written off. Upon notification of a Chapter 13 bankruptcy, an account is monitored for collection with other Chapter 13 bankrupt accounts. In the event the debtors balance has been reduced by the bankruptcy court, the Company will record a loss equal to the amount of principal balance reduction. The remaining balance will be reduced as payments are received by the bankruptcy court. In the event an account is dismissed from bankruptcy, the Company will decide, based on several factors, to begin repossession proceedings or to allow the customer to begin making regularly scheduled payments.

The following table is an assessment of the credit quality by creditworthiness:

	September 30, 2015		**September 30, 2014**	
	Contracts	Direct Loans	Contracts	Direct Loans
Performing accounts	**$ 466,911,165**	**$ 11,619,304**	$ 419,111,304	$ 11,268,405
Non-performing accounts	**8,178,141**	**53,891**	8,085,319	101,071
Total	**$ 475,089,306**	**$ 11,673,195**	$ 427,196,623	$ 11,369,476
Chapter 13 bankrupt accounts	**4,268,637**	**33,148**	3,585,641	32,355
Finance receivables, gross contract	**$ 479,357,943**	**$ 11,706,343**	$ 430,782,264	$ 11,401,831

The following tables present certain information regarding the delinquency rates experienced by the Company with respect to Contracts and under its Direct Loans, excluding Chapter 13 bankrupt accounts:

Contracts	**Gross Balance Outstanding**	**31 60 days**	**61 90 days**	**Over 90 days**	**Total**
September 30, 2015	**$ 475,089,306**	**$ 19,746,203**	**$ 5,603,230**	**$ 2,574,911**	**$ 27,924,344**
		4.16%	**1.18%**	**0.54%**	**5.88%**

September 30, 2014	$ 427,196,623	$ 19,923,081	$ 5,241,042	$ 2,844,277	$ 28,008,400
		4.66%	1.23%	0.67%	6.56%

Direct Loans	**Gross Balance Outstanding**	**31 60 days**	**61 90 days**	**Over 90 days**	**Total**
September 30, 2015	**$ 11,673,195**	**$ 156,375**	**$ 27,819**	**$ 26,072**	**$ 210,266**
		1.34%	**0.24%**	**0.22%**	**1.80%**
September 30, 2014	$ 11,369,476	$ 215,570	$ 77,219	$ 23,852	$ 316,641
		1.90%	0.68%	0.21%	2.79%

5. Line of Credit

The Company has a line of credit facility (the Line) up to $225,000,000. The pricing of the Line, which expires on January 30, 2018, is 300 basis points above 30-day LIBOR with a 1% floor on LIBOR (4.00% at September 30, 2015 and March 31, 2015). Pledged as collateral for this Line are all of the assets of the Company. The outstanding amount of the Line was $211,161,315 and $199,000,000 as of September 30, 2015 and March 31, 2015, respectively. The amount available under the Line was approximately $13,838,685 and $26,000,000 as of September 30, 2015 and March 31, 2015, respectively.

The facility requires compliance with certain financial ratios and covenants and satisfaction of specified financial tests, including maintenance of asset quality and performance tests. Dividends do not require consent in writing by the agent and majority lenders under the new facility as long as the Company is in compliance with a net income covenant. As of September 30, 2015, the Company was in full compliance with all debt covenants.

Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

(Unaudited)

6. Interest Rate Swap Agreements

The Company utilizes interest rate swap agreements to manage exposure to variability in expected cash flows attributable to interest rate risk. The interest rate swap agreements convert a portion of the floating rate debt to a fixed rate, more closely matching the interest rate characteristics of finance receivables.

As of the six months ended September 30, 2015 and 2014 no new contracts were initiated and no contracts matured.

The Company currently has two interest rate swap agreements. A June 4, 2012 interest rate swap agreement provides for a five-year interest rate swap in which the Company pays a fixed rate of 1% and receives payments from the counterparty on the 1-month LIBOR rate. This interest rate swap agreement had an effective date of June 13, 2012 and a notional amount of $25,000,000. A July 30, 2012 agreement provides for a five-year interest rate swap in which the Company pays a fixed rate of 0.87% and receives payments from the counterparty on the 1-month LIBOR rate. This interest rate swap agreement had an effective date of August 13, 2012 and a notional amount of $25,000,000.

The locations and amounts of (gains) losses in income are as follows:

	Three months ended September 30,		Six months ended September 30,	
	2015	**2014**	**2015**	**2014**
Periodic change in fair value of interest rate swap agreements	**$ 79,066**	$ (251,408)	**$ 122,628**	$ (39,121)
Periodic settlement differentials included in interest expense	**94,525**	99,846	**189,478**	198,838
Total	**$ 173,591**	$ (151,562)	**$ 312,106**	$ 159,717

Net realized gains and losses from the interest rate swap agreements were recorded in the interest expense line item of the consolidated statements of income. The following table summarizes the average variable rates received and average fixed rates paid under the swap agreements.

	Three months ended September 30,		Six months ended September 30,	
	2015	**2014**	**2015**	**2014**
Variable rate received	**0.19%**	0.15%	**0.18%**	0.15%

Fixed rate paid	**0.94%**	0.94%	**0.94%**	0.94%

7. Income Taxes

The provision for income taxes decreased to approximately $2.0 million for the three months ended September 30, 2015 from approximately $2.7 million for the three months ended September 30, 2014. The Company s effective tax rate increased to 38.53% for the three months ended September 30, 2015 from 38.10% for the three months ended September 30, 2014. The provision for income taxes decreased to approximately $4.3 million for the six months ended September 30, 2015 from approximately $4.5 million for the six months ended September 30, 2014. The Company s effective tax rate increased to 38.44% for the six months ended September 30, 2015 from 32.69% for the six months ended September 30, 2014. The effective tax rate for the six months ended September 30, 2014 was unusually low due to certain professional fees totaling approximately $1.2 million associated with the potential sale of the Company becoming deductible during the three months ended June 30, 2014 when the Arrangement Agreement was terminated.

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

(Unaudited)

8. Fair Value Disclosures

The Company measures specific assets and liabilities at fair value, which is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When applicable, the Company utilizes market data or assumptions that market participants would use in pricing the asset or liability under a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The Company estimates the fair value of interest rate swap agreements based on the estimated net present value of the future cash flows using a forward interest rate yield curve in effect as of the measurement period, adjusted for nonperformance risk, if any, including a quantitative and qualitative evaluation of both the Company s credit risk and the counterparty s credit risk. Accordingly, the Company classifies interest rate swap agreements as Level 2.

	Fair Value Measurement Using			
Description	Level 1	Level 2	Level 3	Fair Value
Interest rate swap agreements:				
September 30, 2015 liabilities:	**$**	**$ (303,403)**	**$**	**$ (303,403)**
March 31, 2015 liabilities:	$	$ (180,775)	$	$ (180,775)

Financial Instruments Not Measured at Fair Value

The Company s financial instruments consist of cash, finance receivables and the Line. For finance receivables and the Line the carrying value approximates fair value.

Finance receivables, net approximates fair value based on the price paid to acquire indirect loans. The price paid reflects competitive market interest rates and purchase discounts for the Company s chosen credit grade in the economic environment. This market is highly liquid as the Company acquires individual loans on a daily basis from dealers. The initial terms of the Contracts range from 12 to 72 months. The initial terms of the Direct Loans range from 6 to 60 months. In addition, there have been minimal changes in interest rates and purchase discounts related to these types of loans. If liquidated outside of the normal course of business, the amount received may not be the carrying value.

Based on current market conditions, any new or renewed credit facility would contain pricing that approximates the Company s current Line. Based on these market conditions, the fair value of the Line as of September 30, 2015 was estimated to be equal to the book value. The interest rate for the Line is a variable rate based on LIBOR pricing options.

	Fair Value Measurement Using			
Description	Level 1	Level 2	Level 3	Fair Value
Finance receivables:				
September 15, 2015	**$**	**$**	**$ 308,109,000**	**$ 308,109,000**
March 31, 2015	$	$	$ 288,904,000	$ 288,904,000
Line of credit:				
September, 2015	**$**	**$ 211,161,000**	**$**	**$ 211,161,000**
March 31, 2015	$	$ 199,000,000	$	$ 199,000,000

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Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

(Unaudited)

8. Fair Value Disclosures (continued)

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis. The Company does not currently have any assets or liabilities measured at fair value on a nonrecurring basis.

9. Contingencies

The Company currently is not a party to any pending legal proceedings other than ordinary routine litigation incidental to its business, none of which, if decided adversely to the Company, would, in the opinion of management, have a material adverse effect on the Company s financial condition or results of operations.

10. Tender Offer

On March 19, 2015, the Company announced the final results of the modified Dutch auction tender offer for the purchase of approximately 4.7 million shares of the Company s common shares by its principal operating subsidiary. The tender offer expired on March 13, 2015. Total payments for common shares, including costs were approximately $70,459,000. Such costs were recorded as an increase to treasury stock, reducing shareholders equity.

The aggregate number of common shares purchased in the tender offer by Nicholas represented approximately 38.0% of the Company s outstanding common shares as of March 17, 2015. Following settlement of the tender offer, the Company had approximately 7,701,981 common shares outstanding.

11. Recently Issued Accounting Standards

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU No. 2015-15, since 2015-03 did not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. The SEC staff indicated they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement,

regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments is permitted. The Company does not believe the adoption of this ASU will have a significant impact on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) . The ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. On July 9, 2015, the FASB approved the deferral of the effective date of ASU 2014-09 by one year. As a result, ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The ASU would permit public entities to adopt the ASU early, but not before the original effective date (i.e., annual periods beginning after December 15, 2016). Management has not yet selected a transition method and is currently evaluating the impact of the pending adoption of this ASU on the Company s Consolidated Condensed Financial Statements.

The Company does not believe there are any other recently issued accounting standards that have not yet been adopted that will have a material impact on the Company s consolidated financial statements.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Information

This report on Form 10-Q contains various statements, other than those concerning historical information, that are based on management s beliefs and assumptions, as well as information currently available to management, and should be considered forward-looking statements. This notice is intended to take advantage of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to such forward-looking statements. When used in this document, the words anticipate , estimate , expect , and similar expressions are intended to identify forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or expected. Among the key factors that may have a direct bearing on the Company s operating results are fluctuations in the economy, the ability to access bank financing, the degree and nature of competition, demand for consumer financing in the markets served by the Company, the Company s products and services, increases in the default rates experienced on Contracts, adverse regulatory changes in the Company s existing and future markets, the Company s ability to expand its business, including its ability to complete acquisitions and integrate the operations of acquired businesses, to recruit and retain qualified employees, to expand into new markets and to maintain profit margins in the face of increased pricing competition. All forward looking statements included in this report are based on information available to the Company on the date hereof, and the Company assumes no obligations to update any such forward looking statement. You should also consult factors described from time to time in the Company s filings made with the Securities and Exchange Commission, including its reports on Forms 10-K, 10-Q, 8-K and annual reports to shareholders.

Litigation and Legal Matters

See Item 1. Legal Proceedings in Part II of this quarterly report below.

Regulatory Developments

As previously reported, Title X of the Dodd-Frank Act established the Consumer Financial Protection Bureau (CFPB), which became operational on July 21, 2011. Under the Dodd-Frank Act, the CFPB has regulatory, supervisory and enforcement powers over providers of consumer financial products, such as Contracts and the Direct Loans that we offer, including explicit supervisory authority to examine and require registration of installment lenders such as ourselves. Included among the powers afforded to the CFPB is the authority to adopt rules describing specified acts and practices as being unfair, deceptive or abusive, and hence unlawful. Although the Dodd-Frank Act expressly provides that the CFPB has no authority to establish usury limits, some consumer advocacy groups have suggested that certain forms of alternative consumer finance products, such as installment loans, should be a regulatory priority and it is possible that at some time in the future the CFPB could propose and adopt rules making such lending or other products that we may offer materially less profitable or impractical. Further, the CFPB may target specific features of loans by rulemaking that could cause us to cease offering certain products. Any such rules could have a material adverse effect on our business, results of operation and financial condition. The CFPB could also adopt rules imposing new and potentially burdensome requirements and limitations with respect to any of our current or future lines of business, which could have a material adverse effect on our operations and financial performance.

The CFPB recently issued rules regarding the supervision and examination of non-depository larger participants in the automobile finance business, including us. Since we are deemed a larger participant, we are subject to supervision and examination by the CFPB. The CFPB s stated objectives of such examinations are: to assess the quality of a larger participant s compliance management systems for preventing violations of federal consumer financial laws; to identify acts or practices that materially increase the risk of violations of federal consumer finance laws and associated harm to consumers; and to gather facts that help determine whether the larger participant engages in acts or practices that are likely to violate federal consumer financial laws in connection with its automobile finance business. Thus, as a larger participant, we will be subject to examination by the CFPB for, among other things, ECOA compliance; unfair, deceptive or abusive acts or practices (UDAAP) compliance; and the adequacy of our compliance management systems.

Critical Accounting Policy

The Company s critical accounting policy relates to the allowance for credit losses. It is based on management s opinion of an amount that is adequate to absorb incurred losses in the existing portfolio. The allowance for credit losses is established through a provision for losses based on management s evaluation of the risk inherent in the loan portfolio, the composition of the portfolio, and current economic conditions. Such evaluation, considers among other matters, the

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estimated net realizable value of the underlying collateral, economic conditions, historical loan loss experience, management s estimate of probable credit losses and other factors that warrant recognition in providing for an adequate credit loss allowance.

Because of the nature of the customers under the Company s Contracts and its Direct Loans, the Company considers the establishment of adequate reserves for credit losses to be imperative. The Company segregates its Contracts into static pools for purposes of establishing reserves for losses. All Contracts purchased by a branch during a fiscal quarter comprise a static pool. The Company pools Contracts according to branch location because the branches purchase Contracts in different geographic markets. This method of pooling by branch and quarter allows the Company to evaluate the different markets where the branches operate. The pools also allow the Company to evaluate the different levels of customer income, stability, credit history, and the types of vehicles purchased in each market. Each such static pool consists of the Contracts purchased by a branch office during the fiscal quarter.

Contracts are purchased from many different dealers and are all purchased on an individual Contract by Contract basis. Individual Contract pricing is determined by the automobile dealerships and is generally the lesser of state maximum interest rates or the maximum interest rate the customer will accept. In certain markets, competitive forces will drive down Contract rates from the maximum rate to a level where an individual competitor is willing to buy an individual Contract. The Company only buys Contracts on an individual basis and never purchases Contracts in batches, although the Company may consider portfolio acquisitions as part of its growth strategy.

The Company has detailed underwriting guidelines it utilizes to determine which Contracts to purchase. These guidelines are specific and are designed to cause all of the Contracts that the Company purchases to have common risk characteristics. The Company utilizes its District Managers to evaluate their respective branch locations for adherence to these underwriting guidelines. The Company also utilizes an internal audit department to assure adherence to its underwriting guidelines. The Company utilizes the branch model, which allows for Contract purchasing to be done on the branch level. Each Branch Manager may interpret the guidelines differently, and as a result, the common risk characteristics tend to be the same on an individual branch level but not necessarily compared to another branch.

The allowance for loan losses is established through charges to earnings through the provision for credit losses. The allowance for credit losses is maintained at an amount that reduces the net carrying amount of finance receivables for probable incurred losses. If a static pool is fully liquidated and has any remaining reserves, the excess provision is immediately reversed during the period. For static pools that are not fully liquidated that are deemed to have excess reserves, such amounts are reversed against provision for credit losses during the period.

In analyzing a static pool, the Company considers the performance of prior static pools originated by the branch office, the performance of prior Contracts purchased from the dealers whose Contracts are included in the current static pool, the credit rating of the customers under the Contracts in the static pool, and current market and economic conditions. Each static pool is analyzed monthly to determine if the loss reserves are adequate, and adjustments are made if they are determined to be necessary.

Introduction

Diluted net earnings increased 20% to $0.42 for the three-month period ended September 30, 2015 as compared to $0.35 for the corresponding period ended September 30, 2014. Net earnings were $3,256,000 and $4,329,000 for the three months ended September 30, 2015 and 2014, respectively. Revenue increased 4% to $22,687,000 for the three months ended September 30, 2015 as compared to $21,723,000 for the three months ended September 30, 2014. Diluted net earnings increased 19% to $0.89 for the six-month period ended September 30, 2015 as compared to $0.75 for the corresponding period ended September 30, 2014. Net earnings were $6,927,000 and $9,239,000 for the six

months ended September 30, 2015 and 2014, respectively. Revenue increased 4% to $44,712,000 for the six months ended September 30, 2015 as compared to $43,056,000 for the six months ended September 30, 2014.

Our net earnings for the three months ended September 30, 2015 were adversely affected by a reduction in the gross portfolio yield, and an increase in the provision for losses, which are primarily the result of increased competition. Our net earnings were also adversely affected by a change in the fair value of interest rate swap agreements and an increase in interest expense when compared to the corresponding period ended September 30, 2014. Our per share diluted net earnings for the three months ended September 30, 2015, were positively impacted by the Company s purchase of 4.7 million of the Company s common shares by its principal operating subsidiary on March 19, 2015.

Our net earnings for the six months ended September 30, 2015 were adversely affected by a reduction in the gross portfolio yield and an increase in the provision for losses, which are primarily the result of increased competition. Our net earnings were also adversely affected by an increase in interest expense when compared to the corresponding period ended September 30, 2014. Our per share diluted net earnings for the six months ended September 30, 2015, were positively impacted by the Company s purchase of 4.7 million of the Company s common shares by its principal operating subsidiary on March 19, 2015. Our net earnings for the six months ended September 30, 2014 were also positively affected by a decrease in income tax expense of $804,000 or $0.07 per share. This reduction related to

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professional fees associated with the previously announced potential sale of the Company that were not initially deductible for income tax purposes, but became deductible as a result of the termination of the Arrangement Agreement as announced on July 1, 2014.

Portfolio Summary	Three months ended September 30, 2015	Three months ended September 30, 2014	Six months ended September 30, 2015	Six months ended September 30, 2014
Average finance receivables, net of unearned interest (1) Average Net Finance Receivables (1)	$ 334,700,913	$ 309,836,832	$ 329,627,741	$ 307,376,210
Average indebtedness (2)	$ 207,446,179	$ 132,350,000	$ 204,275,011	$ 131,093,750
Interest and fee income on finance receivables	$ 22,686,834	$ 21,723,073	$ 44,711,972	$ 43,055,586
Interest expense	2,273,215	1,485,192	4,439,623	2,933,778
Net interest and fee income on finance receivables	$ 20,413,619	$ 20,237,881	$ 40,272,349	$ 40,121,808
Weighted average contractual rate (3)	22.84%	23.10%	22.84%	23.10%
Average cost of borrowed funds (2)	4.38%	4.49%	4.35%	4.48%
Gross portfolio yield (4)	27.11%	28.04%	27.13%	28.01%
Interest expense as a percentage of average finance receivables, net of unearned interest	2.72%	1.92%	2.69%	1.91%
Provision for credit losses as a percentage of average finance receivables, net of unearned interest	7.38%	6.65%	6.78%	6.11%
Net portfolio yield (4)	17.01%	19.47%	17.66%	19.99%
Marketing, salaries, employee benefits, depreciation, administrative and professional fee expenses as a percentage of average finance receivables, net of unearned interest (5)	10.59%	10.77%	10.76%	11.09%
Pre-tax yield as a percentage of average finance receivables, net of unearned interest (6)	6.42%	8.70%	6.90%	8.90%
Write-off to liquidation (7)	9.64%	9.01%	8.34%	7.77%

Net charge-off percentage (8)	8.03%	7.89%	6.95%	6.63%

Note: All three-month and six-month key performance indicators expressed as percentages have been annualized.

(1) Average finance receivables, net of unearned interest, represents the average of gross finance receivables, less unearned interest throughout the period.

(2) Average indebtedness represents the average outstanding borrowings under the Line. Average cost of borrowed funds represents interest expense as a percentage of average indebtedness.

(3) Weighted average contractual rate represents the weighted average annual percentage rate (APR) of all Contracts and Direct Loans as of the period ending date.

(4) Gross portfolio yield represents finance revenues as a percentage of average finance receivables, net of unearned interest. Net portfolio yield represents finance revenue minus (a) interest expense and (b) the provision for credit losses as a percentage of average finance receivables, net of unearned interest.

(5) The numerators for the three and six months ended September 30, 2014 include expenses associated with the potential sale of the Company. Absent these expenses, the percentages would have been 10.72% and 10.86%, respectively.

(6) Pre-tax yield represents net portfolio yield minus administrative expenses (marketing, salaries, employee benefits, depreciation, administrative, and professional fees) as a percentage of average finance receivables, net of unearned interest.

(7) Write-off to liquidation percentage is defined as net charge-offs divided by liquidation. Liquidation is defined as beginning gross receivable balance plus current period purchases minus voids and refinances minus ending gross receivable balance.

(8) Net charge-off percentage represents net charge-offs divided by average finance receivables, net of unearned interest, outstanding during the period.

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Three months ended September 30, 2015 compared to three months September 30, 2014

Interest Income and Loan Portfolio

Interest and fee income on finance receivables, predominately finance charge income, increased 4.6% to approximately $22.7 million for the three-month period ended September 30, 2015 from $21.7 million for the corresponding period ended September 30, 2014. Average finance receivables, net of unearned interest equaled approximately $334.7 million for the three-month period ended September 30, 2015, an increase of 8.0% from $309.8 million for the corresponding period ended September 30, 2014. The primary reason average finance receivables, net of unearned interest increased was the increase of the receivable base of several existing branches in younger markets (see Contract Procurement and Loan Origination below). The gross finance receivable balance increased 11.1% to approximately $491.1 million as of September 30, 2015, from $442.2 million as of September 30, 2014. The primary reason interest income increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased to 27.11% for the three-month period ended September 30, 2015 compared to 28.04% for the three-month period ended September 30, 2014. The gross portfolio yield decreased primarily due to the decrease in the average dealer discount and a decrease in the average APR, which is primarily the result of increased competition. The average dealer discount associated with new volume for the three months ended September 30, 2015 and 2014 was 7.57% and 8.18%, respectively in relation to the total amount financed. The net portfolio yield decreased to 17.01% for the three-month period ended September 30, 2015 from 19.47% for the corresponding period ended September 30, 2014. The net portfolio yield decreased due to a decrease in the gross portfolio yield, an increase in the provision for credit losses, and an increase in interest expense (see Analysis of Credit Losses and Interest Expense below).

Marketing, Salaries, Employee Benefits, Depreciation, Administrative, and Professional Fee Expenses

Marketing, salaries, employee benefits, depreciation, administrative, and professional fee expenses increased to approximately $8.9 million for the three-month period ended September 30, 2015 from approximately $8.3 million for the corresponding period ended September 30, 2014. The increase was primarily related to an increase in costs associated with maintaining the finance receivable portfolio. The Company increased average headcount to 340 for the three-month period ended September 30, 2015 from 326 for the three-month period ended September 30, 2014. Marketing, salaries, employee benefits, depreciation, administrative, and professional fee expenses as a percentage of finance receivables, net of unearned interest, decreased to 10.59% for the three-month period ended September 30, 2015 from 10.77% for the three-month period ended September 30, 2014. The three months ended September 30, 2014 calculation includes expenses associated with the potential sale of the Company. Absent these expenses, the percentage would have been 10.72%.

Interest Expense

Interest expense increased to approximately $2.3 million for the three-month period ended September 30, 2015 from $1.5 million for the three-month period ended September 30, 2014. The following table summarizes the Company s average cost of borrowed funds:

	Three months ended September 30,	
	2015	**2014**
Variable interest under the line of credit facility	**0.39%**	0.31%
Settlements under interest rate swap agreements	**0.18%**	0.30%
Credit spread under the line of credit facility	**3.81%**	3.88%

Average cost of borrowed funds	**4.38%**	4.49%

The Company s average cost of funds decreased mostly due to the interest rate swap agreements not increasing proportionately to total average debt as of September 30, 2015 as compared to September 30, 2014. The total average debt increased in March 2015 due to the tender offer. LIBOR rates have also increased, which has caused the credit spread to decrease and the variable interest to increase. The variable interest rate also includes a decrease in the unused line fees offset with an increase in amortized debt fees.

The notional amount of interest rate swap agreements was $50.0 million at a weighted average fixed rate of 0.94% for each of the three-month periods ended September 30, 2015 and 2014. For further discussions regarding the effect of interest rate swap agreements see Note 6 Interest Rate Swap Agreements .

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Six months ended September 30, 2015 compared to six months September 30, 2014

Interest Income and Loan Portfolio

Interest and fee income on finance receivables, predominately finance charge income, increased 4.0% to approximately $44.7 million for the six-month period ended September 30, 2015 from $43.0 million for the corresponding period ended September 30, 2014. Average finance receivables, net of unearned interest equaled approximately $329.6 million for the six-month period ended September 30, 2015, an increase of 7.2% from $307.4 million for the corresponding period ended September 30, 2014. The primary reason average finance receivables, net of unearned interest increased was the increase of the receivable base of several existing branches in younger markets (see Contract Procurement and Loan Origination below). The gross finance receivable balance increased 11.1% to approximately $491.1 million as of September 30, 2015, from $442.2 million as of September 30, 2014. The primary reason interest income increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased to 27.13% for the six-month period ended September 30, 2015 compared to 28.01% for the six-month period ended September 30, 2014. The gross portfolio yield decreased primarily due to the decrease in the average dealer discount and a decrease in the average APR, which is primarily the result of increased competition. The average dealer discount associated with new volume for the six months ended September 30, 2015 and 2014 was 7.55% and 8.16%, respectively in relation to the total amount financed. The net portfolio yield decreased to 17.66% for the six-month period ended September 30, 2015 from 19.99% for the corresponding period ended September 30, 2014. The net portfolio yield decreased due to a decrease in the gross portfolio yield, an increase in the provision for credit losses, and an increase in interest expense (see Analysis of Credit Losses and Interest Expense below).

Marketing, Salaries, Employee Benefits, Depreciation, Administrative, and Professional Fee Expenses

Marketing, salaries, employee benefits, depreciation, administrative, and professional fee expenses increased to approximately $17.7 million for the six-month period ended September 30, 2015 from approximately $17.0 million for the corresponding period ended September 30, 2014. The increase was primarily related to an increase in costs associated with maintaining the finance receivable portfolio. The Company increased average headcount to 338 for the six-month period ended September 30, 2015 from 326 for the six-month period ended September 30, 2014. Marketing, salaries, employee benefits, depreciation, administrative, and professional fee expenses as a percentage of finance receivables, net of unearned interest, decreased to 10.76% for the six-month period ended September 30, 2015 from 11.09% for the three-month period ended September 30, 2014. The six months ended September 30, 2014 calculation includes expenses associated with the potential sale of the Company. Absent these expenses, the percentage would have been 10.86%.

Interest Expense

Interest expense increased to approximately $4.4 million for the six-month period ended September 30, 2015 from $2.9 million for the six-month period ended September 30, 2014. The following table summarizes the Company s average cost of borrowed funds:

	Six months ended September 30,	
	2015	2014
Variable interest under the line of credit facility	**0.35%**	0.30%
Settlements under interest rate swap agreements	**0.19%**	0.30%
Credit spread under the line of credit facility	**3.81%**	3.88%

Average cost of borrowed funds	**4.35%**	4.48%

The Company s average cost of funds decreased mostly due to the interest rate swap agreements not increasing proportionately to total average debt as of September 30, 2015 as compared to September 30, 2014. The total average debt increased in March 2015 due to the tender offer. LIBOR rates have also increased, which has caused the credit spread to decrease and the variable interest to increase. The variable interest rate also includes a decrease in the unused line fees offset with an increase in amortized debt fees.

The notional amount of interest rate swap agreements was $50.0 million at a weighted average fixed rate of 0.94% for each of the six-month periods ended September 30, 2015 and 2014. For further discussions regarding the effect of interest rate swap agreements see Note 6 Interest Rate Swap Agreements .

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Contract Procurement

The Company purchases Contracts in the sixteen states listed in the table below. The Contracts purchased by the Company are predominately for used vehicles; for the three- and six-month periods ended September 30, 2015 and 2014, less than 1% were for new vehicles.

The following tables present selected information on Contracts purchased by the Company, net of unearned interest.

	Three months ended September 30,		Six months ended September 30,	
State	**2015**	**2014**	**2015**	**2014**
FL	**$ 14,757,260**	$ 12,471,132	**$ 30,530,816**	$ 27,646,924
GA	**4,791,748**	4,236,295	**9,964,319**	9,483,742
NC	**3,312,194**	3,908,179	**7,148,907**	7,898,202
SC	**1,804,453**	876,599	**3,513,451**	1,962,924
OH	**6,688,626**	5,598,970	**13,822,012**	11,698,092
MI	**1,623,666**	1,455,516	**3,484,916**	3,421,619
VA	**1,025,706**	1,256,726	**2,510,830**	2,665,082
IN	**2,216,307**	1,785,517	**4,261,456**	3,786,408
KY	**2,270,664**	2,265,505	**4,704,945**	4,491,257
MD	**714,615**	1,086,084	**1,563,927**	2,335,654
AL	**1,633,033**	1,425,989	**3,532,931**	2,936,735
TN	**1,606,619**	856,585	**3,384,843**	2,407,502
IL	**2,452,631**	1,394,897	**4,540,087**	2,476,212
MO	**2,195,018**	1,843,028	**4,457,270**	3,586,767
KS	**660,470**	415,720	**1,420,186**	849,224
TX	**436,203**		**1,722,889**	
Total	**$ 48,189,213**	$ 40,876,742	**$ 100,563,785**	$ 87,646,344

	Three months ended September 30,		Six months ended September 30,	
Contracts	**2015**	**2014**	**2015**	**2014**
Purchases	**$ 48,189,213**	$ 40,876,742	**$ 100,563,785**	$ 87,646,344
Weighted APR	**22.76%**	23.07%	**22.71%**	23.04%
Average discount	**7.57%**	8.18%	**7.55%**	8.16%
Weighted average term (months)	**56**	55	**56**	55
Average loan	**$ 11,357**	$ 10,953	**$ 11,370**	$ 10,989
Number of Contracts	**4,243**	3,732	**8,845**	7,976

Loan Origination

The following table presents selected information on Direct Loans originated by the Company, net of unearned interest.

	Three months ended September 30,		Six months ended September 30,	
Direct Loans Originated	**2015**	**2014**	**2015**	**2014**
Originations	**$ 2,525,693**	$ 2,365,507	**$ 5,176,991**	$ 5,031,054
Weighted APR	**26.02%**	26.82%	**25.82%**	26.75%
Weighted average term (months)	**29**	29	**29**	30
Average loan	**$ 3,608**	$ 3,494	**$ 3,590**	$ 3,538
Number of loans	**700**	677	**1,442**	1,422

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Analysis of Credit Losses

As of September 30, 2015, the Company had 1,433 active static pools. The average pool upon inception consisted of 63 Contracts with aggregate finance receivables, net of unearned interest, of approximately $688,922.

The Company anticipates losses absorbed as a percentage of liquidation (see note 7 in the Portfolio Summary table on page 14 for the definition of write-off to liquidation) will be in the 8%-12% range during the remainder of the current fiscal year; however, no assurances can be given that the actual losses absorbed may not be higher as a result of continued fierce competition. The longer-term outlook for portfolio performance will depend largely on the competition. Other indicators include the overall economic conditions, the unemployment rate, repossessed car resale rates, and the price of oil which impacts the cost of gasoline, food and many other items used or consumed by the average person. Also, the Company s ability to monitor, manage and implement its underwriting philosophy in additional geographic areas as it strives to continue its expansion will impact future portfolio performance. The Company does not believe there have been any significant changes in loan concentrations; however, the weighted average term increased to 56 months from 55 months of Contracts purchased during the three and six months ended September 30, 2015 as compared to the three and six months ended September 30, 2014.

The provision for credit losses increased to approximately $6.2 million from approximately $5.2 million for the three months ended September 30, 2015 and 2014, respectively. The provision for credit losses increased to approximately $11.2 million from approximately $9.4 million for the six months ended September 30, 2015 and 2014, respectively. The Company has experienced favorable variances between projected write-offs and actual write-offs on many seasoned pools which has resulted in an increase in expected future cash flows. However, due to increased competition in more recent periods, the percentage of loans acquired that are categorized in the lower tiers of the Company s guidelines has increased. The average loan to value ratio, which expresses the amount of the Contract as a percentage of the value of the automobile, has also increased to approximately 97% as of September 30, 2015 from 95% as of September 30, 2014. Static pools originated during fiscal 2016 and 2015, while still performing at acceptable net charge-off levels, have experienced losses higher than static pools originated in previous years. Consequently, if this trend continues, the Company would expect the provision for credit losses to remain higher for future static pools. Accordingly, the amount of additional provision necessary to maintain an adequate allowance to absorb incurred losses in the existing portfolio was greater than the provision compared to the three months ended September 30, 2014. The Company s losses as a percentage of liquidation increased to 9.64% from 9.01% for the three months ended September 30, 2015 and 2014, respectively. The Company s losses as a percentage of liquidation increased to 8.34% from 7.77% for the six months ended September 30, 2015 and 2014, respectively. The Company has also experienced increased losses in part due to a decrease in auction proceeds from repossessed vehicles. These proceeds are dependent upon several variables including the general market for repossessed vehicles. During the three months ended September 30, 2015 and 2014, auction proceeds from the sale of repossessed vehicles averaged approximately 43% and 45%, respectively, of the related principal balance. During the six months ended September 30, 2015 and 2014, auction proceeds from the sale of repossessed vehicles averaged approximately 44% and 46%, respectively, of the related principal balance.

The allowance for doubtful accounts decreased to $11.0 million as of September 30, 2015 from $11.9 million as of September 30, 2014. The allowance decreased even though the provision for credit losses and the actual write-offs for the three and six-month periods ended September 30, 2015 have increased. The primary reason that the allowance has decreased, even as losses have increased, is due to static pools that were originated in Fiscal years 2014, 2013 and 2012 experienced losses that were significantly less than originally anticipated. The amounts of positive cash flow adjustments associated with these pools have more than offset the decreasing cash flows on more recent pools. The Company acknowledges that if the current loss trends continue, which it expects will happen, the allowance for doubtful accounts will increase in future reporting periods as older pools will have less impact on cash flows and more

recent pools will have a more material impact to consolidated cash flow adjustments; however, the Company believes that the current reserve levels are still adequate.

The Company considers competition the largest driver of the loss reserve levels; however, the Company also considers the following factors to assist in determining the appropriate loss reserve levels: unemployment rates; the number of bankruptcy filings; the results of internal branch audits; consumer sentiment; consumer spending; economic growth (i.e., changes in GDP); the condition of the housing sector; and other leading economic indicators. The Company continues to evaluate reserve levels on a pool-by-pool basis during each reporting period. The longer-term outlook for portfolio performance will depend on overall economic conditions, the unemployment rate, the rational or irrational behavior of the Company s competitors, and the Company s ability to monitor, manage and implement its underwriting philosophy in additional geographic areas as it strives to continue its expansion.

The delinquency percentage for Contracts more than thirty days past due as of September 30, 2015 was 5.88% as compared to 6.56% as of September 30, 2014. The delinquency percentage for Direct Loans more than thirty days past due as of

September 30, 2015 was 1.80% as compared to 2.79% as of September 30, 2014. See Note 4 Finance Receivables for changes in allowance for credit losses, credit quality and delinquencies. Such decreases in the delinquency percentage for Contracts and the losses as a percentage of liquidation were contemplated in determining the appropriate reserve levels, particularly for less seasoned pools.

Recoveries as a percentage of charge-offs decreased to approximately 9.52% for the three months ended September 30, 2015 from approximately 12.39% for the three months ended September 30, 2014. Recoveries as a percentage of charge-offs decreased to approximately 11.92% for the six months ended September 30, 2015 from approximately 15.21% for the six months ended September 30, 2014 Historically, recoveries as a percentage of charge-offs fluctuate from period to period, and the Company does not attribute this decrease to any particular change in operational strategy or economic event. From time to time the Company will aggregate charge-off accounts, it deems uncollectable, and sell them to third party recovery specialists.

In accordance with our policies and procedures, certain borrowers qualify for, and the Company offers, one-month principal payment deferrals on Contracts and Direct Loans. For the three months ended September 30, 2015 and September 30, 2014 the Company granted deferrals to approximately 6.22% and 5.89%, respectively, of total Contracts and Direct Loans. For the six months ended September 30, 2015 and September 30, 2014 the Company granted deferrals to approximately 11.47% and 11.06%, respectively, of total Contracts and Direct Loans. The number of deferrals is influenced by portfolio performance, general economic conditions and the unemployment rate.

Income Taxes

The provision for income taxes decreased to approximately $2.0 million for the three months ended September 30, 2015 from approximately $2.7 million for the three months ended September 30, 2014. The Company s effective tax rate increased to 38.53% for the three months ended September 30, 2015 from 38.10% for the three months ended September 30, 2014. The provision for income taxes decreased to approximately $4.3 million for the six months ended September 30, 2015 from approximately $4.5 million for the six months ended September 30, 2014. The Company s effective tax rate increased to 38.44% for the six months ended September 30, 2015 from 32.69% for the six months ended September 30, 2014. The effective tax rate for the six months ended September 30, 2014 was unusually low due to certain professional fees totaling approximately $1.2 million associated with the potential sale of the Company becoming deductible during the three months ended June 30, 2014 when the Arrangement Agreement was terminated.

Liquidity and Capital Resources

The Company s cash flows are summarized as follows:

	Six months ended September 30, 2015	2014
Cash provided by (used in):		
Operating activities	**$ 11,931,438**	$ 11,366,617
Investing activities (primarily purchase of Contracts)	**(24,988,803)**	(13,233,663)
Financing activities	**11,341,864**	4,213,893
Net (decrease) increase in cash	**$ (1,715,501)**	$ 2,346,847

The Company s primary use of working capital during the six months ended September 30, 2015, was the funding of the purchase of Contracts which are financed substantially through cash from principal payments received and cash from operations in addition to borrowings on the Line. The Line is secured by all of the assets of the Company and has a maturity date of January 31, 2018. The Company may borrow up to $225.0 million. Borrowings under the Line may be under various LIBOR pricing options plus 300 basis points with a 1% floor on LIBOR. As of September 30, 2015, the amount outstanding under the Line was approximately $211.2 million, and the amount available under the Line was approximately $13.8 million.

The Company will continue to depend on the availability of the Line, together with cash from operations, to finance future operations. Amounts outstanding under the Line have increased by approximately $12.2 million during the six months ended September 30, 2015. The increase of the Line is principally related to the fact that cash needed to fund new contracts exceeded cash received from operations. The amount of debt the Company incurs from time to time under these financing mechanisms depends on the Company s need for cash and ability to borrow under the terms of the Line. The Company believes that borrowings available under the Line as well as cash flow from operations will be sufficient to meet its short-term funding needs. The Line requires compliance with certain debt covenants including financial ratios, asset quality and other performance tests. The Company is in compliance with all of its debt covenants.

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Contractual Obligations

The following table summarizes the Company s material obligations as of September 30, 2015.

		Payments Due by Period			
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Operating leases	$ 5,285,307	$ 1,899,501	$ 2,371,876	$ 1,013,930	$
Line of credit	211,161,315		211,151,315		
Interest on Line[1]	21,432,873	9,185,517	12,247,356		
Total	$ 237,879,495	$ 11,085,018	$ 225,770,547	$ 1,013,930	$

1. The Company s Line matures on January 30, 2018. Interest on outstanding borrowings under the Line as of September 30, 2015, is based on an effective interest rate of 4.35% which includes the estimated effect of the interest rate swap agreements settlements through the maturity date. The effective interest rate used in the above table does not contemplate the possibility of entering into interest rate swap agreements in the future.

Future Expansion

The Company currently operates a total of 66 branch locations in sixteen states, including twenty in Florida; eight in Ohio; six in North Carolina and Georgia; three in Kentucky, Indiana, Missouri, Michigan, Illinois; two in Alabama, Virginia, Tennessee, and South Carolina; and one each in Maryland, Kansas, and Texas. Each office is budgeted (size of branch, number of employees and location) to handle up to 1,000 accounts and up to $7.5 million in gross finance receivables. To date, thirty-three of our branches meet this capacity. The Company consolidated two branch locations (Clearwater, FL and Birmingham, AL) into branches previously established within their market in the period ended September 30, 2015. We also continue developing in Texas and plan to open a full service branch location in Dallas in December 2015. The Company continues to evaluate additional markets for future branch locations, and subject to market conditions, may open additional branch locations during fiscal 2016.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company s operations result primarily from changes in interest rates. The Company does not engage in speculative or leveraged transactions, nor does it hold or issue financial instruments for trading purposes.

Interest rate risk

Management s objective is to minimize the cost of borrowing through an appropriate mix of fixed and floating rate debt. Derivative financial instruments, such as interest rate swap agreements, may be used for the purpose of managing fluctuating interest rate exposures that exist from ongoing business operations. The Company does not use interest rate swap agreements for speculative purposes. As of September 30, 2015, $161,161,315, or approximately 76.3% of our total debt, was subject to floating interest rates; however, due to a 1% floor on the debt these rates are effectively fixed until the variable rates exceed this threshold. As a result, a hypothetical increase in the variable

interest rates of 1% or 100 basis points (1.1930% as of September 30, 2015) as of September 30, 2015 applicable to this floating rate debt would have an annual after-tax reduction of interest expense of approximately $57,000.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company s management evaluated, with the participation of the Company s President and Chief Executive Officer and Vice President and Chief Financial Officer, the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon their evaluation of these disclosure controls and procedures, the President and Chief Executive Officer and the Vice President and Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of the date of such evaluation to ensure that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared.

Changes in internal controls. There have been no changes in the Company s internal control over financial reporting that occurred during the Company s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company currently is not a party to any pending legal proceedings other than ordinary routine litigation incidental to its business, none of which, if decided adversely to the Company, would, in the opinion of management, have a material adverse effect on the Company s financial condition or results of operations.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended March 31, 2015, which could materially affect our business, financial condition or future results. The risks described in the Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 6. EXHIBITS

See exhibit index following the signature page.

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SIGNATURES

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

NICHOLAS FINANCIAL, INC.

(Registrant)

Date: November 09, 2015	/s/ Ralph T. Finkenbrink Ralph T. Finkenbrink Chairman of the Board, President, Chief Executive Officer and Director
Date: November 09, 2015	/s/ Katie L. MacGillivary Katie L. MacGillivary Vice President and Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Description
10.8	Form of Dealer Agreement and Schedule thereto listing dealers that are parties to such agreements
31.1	Certification of the President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Vice President and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. § 1350
32.2*	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. § 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* This certification accompanies the Quarterly Report on Form 10-Q and is not filed as part of it.