TAT TECHNOLOGIES LTD
Form 20-F
June 30, 2011

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

FORM 20-F

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

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

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

For the transition period from _____ to _____

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

Date of event requiring this shell company report ……..

Commission file number: 0-16050

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

Israel
(Jurisdiction of incorporation or organization)

P.O. Box 80, Gedera 70750, Israel
(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 0.90 Par Value	NASDAQ Global Market

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

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

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

Ordinary Shares, par value NIS 0.90 per share…… _____
(as of December 31, 2010)

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

Yes o No x

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

Yes o No x

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

Yes x No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x

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

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

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

Item 17 o Item 18 o

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

Yes o No x

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INTRODUCTION

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

As of December 31, 2010, we operate under three segments: (i) Original Equipment Manufacturing or "OEM" of Heat Transfer products through our Gedera facility; (ii) OEM of Electric Motion Systems through our Bental subsidiary; and (iii) Maintenance, Repair and Overhaul or 'MRO" services through our Limco subsidiary. Until December 4, 2009, TAT also operated a fourth operational segment, the Parts services, which was contributed to First Aviation Services, Inc., or "FAvS" as part of the transaction described under "Item 4 – Information of the Company; History and development of TAT".

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

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

Limco provides MRO services to the aerospace industry. Limco's Federal Aviation Administration, or FAA, certified repair stations provide aircraft with MRO services for airlines, air cargo carriers, maintenance service centers and the military, primarily for heat transfer components, landing gear and auxiliary power units (APU). In addition to Limco's MRO services, Limco is also, to a limited extent, an OEM of heat transfer equipment for airplane manufacturers and other related products.

Limco's Parts services division, operated until December 4, 2009, focused on inventory management and sale of APU parts, propellers and landing gear. Limco offered parts services for commercial, regional and charter airlines and business aircraft owners. On December 4, 2009, TAT contributed its parts division to First Aviation Services Inc., or FAvS and now holds 36.6% of FAvS's share capital (See "Item 4 – Information of the Company; History and development of TAT").

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

As of January 1, 2011, TAT began reporting its operations based on four operating segments: (i) Original Equipment Manufacturing or "OEM" of Heat Management Solutions (ii) OEM of Electric Motion Systems (iii) Heat Transfer Services and Products and (iv) Maintenance, Repair and Overhaul or "MRO" services of Aviation Components.

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

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

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

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

TAT's selected historical information is derived from the audited consolidated financial statements of TAT as of December 31, 2010 and 2009 and for each of its fiscal years ended December 31, 2010, 2009 and 2008, which are included elsewhere in this annual statement, and have been prepared in accordance with U.S. GAAP. The selected financial data for each of the years in the two-year period ended December 31, 2007 and December 31, 2006 is derived from other audited consolidated financial statements of TAT, which have been prepared in accordance with U.S. GAAP. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to Item 5, "Operating and Financial Review and Prospects", and our consolidated financial statements and notes thereto included elsewhere in this annual report.

Income Statement Data:

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands, except per share data)				
Revenues:					
Sale of products	$38,954	$34,751	$31,724	$18,928	$18,512
Services and other	40,801	48,340	71,565	69,776	59,021
Total revenues	79,755	83,091	103,289	88,704	77,533
Cost of revenues:					
Sale of products	32,052	23,115	22,977	13,399	12,590
Services and other	29,136	43,780	57,586	51,808	45,049
Write Down of Inventory	3,500	-	-	-	-
Total cost of revenues	64,688	66,895	80,563	65,207	57,639
Gross profit	15,067	16,196	22,726	23,497	19,894
Operating expenses:					
Research and development costs	651	680	-	-	-
Selling and marketing expenses	3,475	3,719	4,369	3,719	3,466
General and administrative expenses	12,832	14,979	12,407	10,995	6,710
Impairment of goodwill and intangible assets	4,704	-	-	-	-
Capital gain from sale of the propellers & parts businesses	-	(4,400)	-	-	-
Operating income (loss)	(6,595)	1,218	5,950	8,783	9,718
Financial income (expenses) net	(111)	149	1,174	701	(464)
Other income (expenses), net	(200)	-	(236)	*26,478	59
Income (loss) from operations before income taxes	(6,906)	1,367	6,888	35,962	9,313
Income taxes (benefit)	(4,153)	(765)	1,795	3,212	3,247
Share in income (loss) and impairment of investment of associated companies	(4,510)	(32)	674	-	-
Net income (loss)	(7,263)	2,100	5,767	*32,750	6,066
Net income attributable to non controlling interest	123	347	1,499	771	-
Net income (loss) attributable to TAT Technologies shareholders	$(7,386)	$1,753	$4,268	$31,979	$6,066
Basic net income (loss) per share	$(0.84)	$0.22	$0.65	$5.04	$1.00

Diluted net income (loss) per share	$(0.84)	$0.22	$0.65	$4.99	$0.98
Weighted average number of shares used in computing basic net income per share	8,815	7,894	6,546	6,344	6,042
Weighted average number of shares used in computing diluted net income per share	8,815	7,894	6,566	6,408	6,163
Cash dividend per share	$-	$0.85	$-	$0.40	$0.20

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

Balance Sheet Data:

	As of December 31,				
	2010	2009	2008	2007	2006
	(in thousands)				
Working capital	$70,462	$76,748	$90,616	$79,458	$29,743
Total assets	121,427	124,491	135,930	113,407	66,237
Long-term liabilities, excluding current maturities	5,294	13,556	12,925	4,756	8,283
Shareholders' equity	$88,059	$94,866	$76,077	$72,793	$39,720

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Related to Our Business and Our Industry

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

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

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

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

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

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

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

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

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

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

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

Five customers accounted for approximately 21.6%, 18.3% and 25.4% of TAT's revenues for the years ended December 31, 2010, 2009 and 2008, respectively. TAT's major customers may not maintain the same volume of business with TAT in the future. If TAT loses any of these customers or they reduce the amount of business they do with TAT, TAT's revenues may be seriously affected.

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

A material portion of the revenues of TAT and its subsidiaries are from contracts with the U.S. and Israeli governments. Sales to the U.S. and Israeli governments accounted for approximately 7.3%, 5.7% and 5.6% of TAT's revenues on a consolidated basis for the years ended December 31, 2010, 2009 and 2008, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

In the years ended December 31, 2010, 2009 and 2008, approximately 70.3%, 76.3% and 83.5% of TAT's sales, respectively, resulted from TAT's international operations (out of Israel). This source of revenue is subject to various risks, including:

- Governmental embargoes or foreign trade restrictions;
- Changes in U.S. and foreign governmental regulations;

- Changes in foreign exchange rates;
- Tariffs;
- Other trade barriers; and
- Political, economic and social instability; and difficulties in accounts receivable collections.

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

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

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

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

- Issuance of equity securities that would dilute TAT's shareholders' percentages of ownership;
- Large one-time write-offs;
- The incurrence of debt and contingent liabilities;

- Difficulties in the assimilation and integration of operations, personnel, technologies, products and information systems of the acquired companies;
- Diversion of management's attention from other business concerns;
- Contractual disputes;
- Risks of entering geographic and business markets in which TAT has no or only limited prior experience; and
- Potential loss of key employees of acquired organizations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk Factors Related to Our Ordinary Shares

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

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

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

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

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

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

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

Risks Relating to Our Location in Israel

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

TAT is incorporated under the laws of Israel, and TAT's executive offices, manufacturing plant and research and development facilities are located in, the State of Israel. As a result, political, economic and military conditions affecting Israel directly influence TAT. Any major hostilities involving Israel, a full or partial mobilization of the reserve forces of the Israeli army, the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel could have a material adverse effect on TAT's business, financial condition and results of operations.

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

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

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

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

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

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

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

TAT is incorporated under Israeli law. The rights and responsibilities of holders of TAT's ordinary shares are governed by TAT's memorandum of association, articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, each shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a controlling shareholder of an Israeli company, or a shareholder who knows that he or she possesses the power to determine the outcome of a shareholder vote or who has the power to appoint or prevent the appointment of a director or officer in the company, has a duty of fairness toward the company. However, Israeli law currently does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revision in recent years, there is relatively little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

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

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

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

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

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

As a foreign private issuer whose shares are listed on the NASDAQ Global Market, TAT is permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Marketplace Rules. A foreign private issuer that elects to follow a home country practice instead of such requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the Securities and Exchange Commission or on its website each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. As a foreign private issuer listed on The NASDAQGlobal Market, TAT may follow TAT's home country law, instead of the NASDAQ Marketplace Rules, which require that TAT obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of TAT, certain transactions other than a public offering involving issuances of a 20% or more interest in TAT and certain acquisitions of the stock or assets of another company.

Item 4. Information on the Company

History and Development of TAT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FAvS' shares are quoted over the counter (OTC) at the NASDAQ stock market. FAvS' share value as of the closing date (December 4, 2009) and as of December 31, 2010 and December 31, 2009 was $0.89, $0.62 and $0.75 respectively. TAT believes that the share value does not reflect the fair value of FAvS' share, because the extremely low trading volume in FAvS' shares does not reflect an active market. Therefore the fair value of FAvS was based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers. According to the appraisal, FAvS' fair value amounted to $22.549 million as of November 30, 2009. As a result of the sale of Piedmont's propeller and spare parts businesses, TAT recorded a capital gain in the amount of approximately $4.4 million in its statement of income for the year ended December 31, 2009.

On October 1, 2010, Piedmont agreed to secure the guarantee mentioned above for $6.6 million, by providing a letter of credit to the lender for FAvS. Such guaranty is for a period of 15 months ending December 31, 2011 and its amount is reduced as such debt amortizes in increments of $0.1 million per month. Piedmont was also granted a second lien on the assets of FAvS to secure the repayment obligations of FAvS in the event that the letter of credit is drawn upon. Piedmont also entered into an intercreditor agreement with the lender to FAvS which will subordinate Piedmont's claims if the letter of credit is drawn upon to the obligations of FAvS to the lender. As of December 31, 2010, the guaranty amount is $6.3 million. The fair value of the guarantee was based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers.

As of December 31, 2010, TAT recognized an impairment charge of $1.8 million of its 37% interest in FAvS that was performed by managment with the assistant of third party valuation firm.

A commercial dispute has existed between Piedmont and FAvS relating to the propeller maintenance business which had been contributed to FAvS by Piedmont as part of the transaction discussed above. The commercial dispute began in April 2010 when a customer of the propeller maintenance business requested reimbursement from FAvS for damages to certain propellers. FAvS then sought reimbursement from Piedmont for such amounts. Although Piedmont rejected all of FAvS' claims with regards to Piedmont's responsibility for the claimed damages, the parties reached an agreement pursuant to which Piedmont loaned $700,000 to FAvS and agreed to bear a portion of the additional cost of the replacement of propeller blades that FAvS would be responsible for. In exchange FAvS agreed to waive all claims against Piedmont with respect to such customer. Such loan was subsequently forgiven.

Notwithstanding such waiver, in the last quarter of 2010, FAvS again asserted claims against Piedmont relating to the propeller maintenance business including claims not previously asserted. After reviewing this issue during the 2010 fourth quarter and thereafter, the company estimated the additional liability it may bear and accordingly wrote off the $700,000 loan and recorded an additional accrual of $700,000, which it believed, covers its potential cost in connection with this matter.

In order to finally settle all disputes between them, on June 30, 2011 Piedmont and FAvS entered into a Settlement Agreement and Release (the "Settlement Agreement"). Pursuant to the Settlement Agreement, each party fully released the other party and acknowledged that the settlement was a compromise of disputed claims and was not to be construed as an admission of liability or wrongdoing. In addition, each party agreed not to disparage the other and Piedmont paid an aggregate of $700,000 to FAvS.

Simultaneously with the execution of the Settlement Agreement, Mr. Aaron Hollander, the Chief Executive Officer and controlling stockholder of FAvS, purchased 3,322,259 shares of Class A Common Stock of FavS at a price of $.903 per share (for an aggregate price of $3 million). In addition, Piedmont agreed to extend its guarantee of the bank debt incurred by FavS to fund the KATR transaction through June 30, 2013 and to continue to provide a letter of credit to secure such guarantee. The amortization schedule for such debt was revised so that no amortization will occur until June 30, 2012. Thereafter the debt will amortize at the rate of $200,000 per month.

The Stockholders Agreement entered into in 2009 between Piedmont and Mr. Hollander was also amended to delete the reciprocal drag along rights and to provide that Piedmont may designate one member to the Board of Directors of FAvS (rather than the two provided in the original agreement). Finally, the Rights Agreement entered into in 2009 between Piedmont and FAvS was amended so that Piedmont's right to approve certain material corporate actions by FAvS has been limited to the right to approve contracts or agreements with affiliates of FAvS. The amendment also provides that the approval of Piedmont will not be required if FAvS seeks to raise additional capital from Mr. Hollander so long as the consideration being paid by Mr. Hollander is not less than the consideration that would be paid by a third-party in an arms-length transaction and is fair, equitable and reasonable under the circumstances.

A. Business Overview

Overview

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

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

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

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

As mentioned above under 'History and Development of TAT', Limco's Parts services division, was operated until December 4, 2009, when it was sold to FAvS, in which TAT now holds approximately 36.6%.

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

OEM of Heat Transfer Products

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

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

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

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

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

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

OEM of Electric Motion Systems

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

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

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

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

Maintenance, Repair and Overhaul (MRO) Services

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

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

Business Strategy

TAT's principal strategy is as follows:

- Enhancing OEM Capabilities — TAT, through Gedera and Bental, intends to capitalize on its technical expertise, experience and reputation in the markets of heat management solutions and electrical motion systems, to expand the scope of its OEM offerings both in the airborne and ground segments, for the commercial and defense industries. TAT also intends to transition from the manufacture of single components to the development and manufacture of complete systems.

- Expand the scope of MRO services - TAT's goal is to use its technical expertise, engineering resources and facilities to provide MRO services for additional types of aircraft and additional aircraft systems, subsystems and components and intends to develop the required technical expertise to provide these additional MRO services.

- Increasing Market Share — TAT plans to continue its aggressive marketing efforts for new customers as well as to enhance its activities with its flagship customers. As part of TAT's efforts to achieve greater penetration in the international markets, TAT intends to expand its marketing presence in Western Europe, which is TAT's second largest market, and to substantially increase its presence in Asian, Far East and South American nations, which are fast growing markets where TAT has had limited sales to date.

- Effective synergy among group members — TAT plans to enhance the synergies between its various businesses by, among other things, using Gedera's OEM design capabilities to provide Limco enhanced capabilities to repair heat exchanger systems and products, enabling Limco to compete more effectively in the industry and by supplying to Limco heat exchanger components which should enable Limco to reduce prices on cores. In addition, TAT believes that its acquisition of Bental provides it significant growth potential and plans to capitalize on its affiliation with Bental by penetrating new markets such as the market for ground base systems and introducing technologically innovative products to its existing customers.

- Organic growth and M&A — In addition to growing the existing businesses of Gedera, Limco and Bental, TAT also believes that additional acquisition opportunities exist that will complement its OEM and MRO businesses. TAT will continue to pursue targeted complementary business acquisitions which will broaden the scope and depth of its OEM and MRO operations and increase its market share.

Products and Services

OEM of Heat Transfer Products

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

Heat transfer products

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

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

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

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

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

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

Aviation and flow control accessories

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

Cooling and air-conditioning systems

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

OEM of Electric Motion Systems

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

Electric Motors

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

Actuators

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

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

Alternators

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

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

Maintenance, Repair and Overhaul (MRO) Services

MRO Services

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

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

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

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

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

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

Limco performs MRO services at its repair stations in Oklahoma and North Carolina, all of which are AS9001 certified and licensed by the FAA and EASA to provide MRO services. Limco's Oklahoma facilities provided MRO services for heat transfer products and pneumatic air-handling ducting.

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

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

OEM Authorizations and Licenses

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

Each of the authorizations or licenses that Limco has with OEMs is in the form of a contractual arrangement. Some of these contracts require Limco to pay an authorization fee to the OEM and, in some cases, Limco is also required to pay annual authorization fees and royalties, or to fulfill other conditions set by the OEM.

OEM Capabilities

In addition to its MRO services, Limco also acts, to a limited extent, as an OEM manufacturer of heat transfer products used in commercial, regional, business and military aircraft, air conditioning systems, complete environmental control systems and cooling systems for electronics. Limco currently offers approximately 80 OEM parts to the aerospace industry. These parts are manufactured in compliance with the stringent quality assurance standards that apply to the manufacture of aircraft parts.

Limco’s quality systems are ISO 9001 certified and Limco has both Boeing quality systems approval D6-82479 and FAR 21.303 (the FAA standard for Parts Manufacturer Approval).

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

Customers

General

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

Major Customers

OEM Customers -

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

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

MRO Customers –

TAT services approximately 200 MRO customers, primarily through Limco, including major US domestic and international airlines, air cargo carriers, maintenance service centers and the military. Limco's aerospace OEM customers include over 30 commercial and military aircraft manufacturers and defense contractors and the U.S. government. Limco's customers also include Boeing, Bell, Bombardier, L3, Vought Aircraft and Raytheon. Limco is not a party to any OEM manufacturing contracts, and acts solely upon orders received from Limco's customers.

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

Military Contracts

Sales to the U.S. and Israeli governments accounted for approximately 3.7% and 3.6% of TAT's revenues for the year ended December 31, 2010, approximately 3.1% and 2.6% of its revenues for the year ended December 31, 2009 and approximately 5.0% and 0.6% of its revenues for the year ended December 31, 2008, respectively.

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

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

The vast majority of the governmental contracts to which TAT is party to are fixed-price contracts, some of which contain fixed price escalation mechanism. Under these contracts TAT agrees to perform specific work for a fixed price and, accordingly, realizes the benefit or detriment to the extent that the actual cost of performing the work differs from the contract price. The allowable government contract costs and fees of TAT are subject to audit and may result in non-reimbursement of some contract costs and fees. While governments reserve the right to conduct further audits, audits conducted for periods through fiscal year 2010 have resulted in no material cost recovery disallowances for TAT.

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

Sales and Marketing

Gedera

Gedera derives its revenues mainly from sales to customers in the United States, Israel and Europe. The below table details Gedera's geographic revenues for the years ended December 31, 2010 and 2009, before elimination of intercompany sales of $3.7 million and $5.2 million, respectively.

	Year Ended December 31,					
	2010			2009		
Geographic Region	Revenues In Thousands	Percentage		Revenues In Thousands	Percentage	
	Unaudited			Unaudited		
North America	$ 11,171	37.7	%	$ 11,349	39.7	%
Europe	5,196	17.5		5,438	19.0	
Israel	10,877	36.7		9,707	33.9	
Other	2,407	8.1		2,123	7.4	
Total	$ 29,651	100	%	$ 28,617	100	%

Bental

Bental derives its revenues mainly from sales to customers in Israel. The below table details Bental's geographic revenues for the years ended December 31, 2010 and 2009.

	Year Ended December 31,					
	2010			2009		
Sources of Revenues	Revenues in Thousands	Percentage		Revenues In Thousands	Percentage	
	Unaudited			Unaudited		
North America	$ 103	0.8	%	$ 969	8.6	%
Europe	371	2.8		350	3.1	
Israel	12,346	94.6		9,907	87.5	
Other	226	1.8		95	0.8	
Total	$ 13,046	100	%	$ 11,321	100	%

Limco

Limco derives its revenues mainly from sales to customers in the US and Europe. The below table details Limco's geographic revenues for the years ended December 31, 2010 and 2009, respectively.

	Year Ended December 31,					
	2010			2009		
Sources of Revenues	Revenues in Thousands	Percentage		Revenues In Thousands	Percentage	
	Unaudited			Unaudited		
North America	25,503	62.5	%	$ 34,043	70.4	%
Europe	8,573	21.0		10,767	22.3	
Israel	514	1.3		95	0.2	
Asia	-	-		-		
Other	6,211	15.2		3,435	7.1	
Total	$ 40,801	100	%	$ 48,340	100	%

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

Backlog

At December 31, 2010, TAT had a backlog of approximately $52.3 million for products. TAT anticipates that approximately $31 million of such backlog will be delivered by December 31, 2011 and approximately $21.3 million will be delivered by December 31, 2012 and thereafter.

Product and Service Warranties

TAT provides warranties for its products and services ranging from one to three years, which vary with respect to each contract and in accordance with the nature of each specific product. To date, TAT's warranty costs have not been substantial. As of December 31, 2010, the combined warranty reserve for TAT was $341 thousand.

Competitive Environment

OEM of Heat Transfer Products -

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

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

- Complete system manufacturers that either independently or through subcontractors, manufacture components (such as heat exchangers) for the complete system they manufacture. These companies will compete with Gedera on projects where the products Gedera develops are part of the complete system (such as an aircraft air conditioning system), but it is unlikely that such companies will compete with Gedera in projects where there is a specific requirement for a stand-alone component.

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

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

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

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

OEM of Electrical Motion Systems -

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

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

MRO Services -

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

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

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

Competitive Strengths

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

- Active efforts to preserve its customer base in existing projects, while actively making efforts to broaden and increase its engagements with such clients.

- Conducting marketing activities geared at penetrating new geographical markets and obtaining new customers, while taking advantage of the unique knowledge and expertise that Gedera, Bental and Limco gained in various areas.

- Entering into additional related operating segments that will enable Gedera, Bental and Limco to fulfill its growth potential.

- Providing its customers with the best value, including competitive prices, by tailoring service packages that combine the design and planning of an OEM component, the manufacture of such component, and the provision of maintenance services.

- Extending MRO capabilities in order to establish a 'one-stop-shop' center for comprehensive MRO services for the types of aircraft Limco targets.

- Enhancing its engineering capabilities in order to support customer needs related to new projects and in order to certify MRO services that differ from processes previously approved by the FAA or ESAA. This will allow to shorten the long and complex approval process, streamline the design and certification process, and reduce costs.

    - Constant search for new technologies and manufacturing techniques in the heat management solutions line.

- Innovations and improvements geared at enhancing the quality and performance of Gedera's, Bental's and Limco's existing products.

- Cutting delivery times and reducing costs.

- Entrepreneurship and innovation in the development of new products in an effort to become a market leader and to enter into long term platforms.

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

- Bental enhances TAT's ability to penetrate new markets such as the military market and the market for ground base systems, in addition to the aerospace market.

- Bental's entrepreneurial nature brings significant growth potential by introducing innovative and unique products such as stabilized payload systems.

Engineering and Manufacturing

As of December 31, 2010, TAT, had 508 employees engaged in manufacturing, repair, and testing of products and in engineering (out of a total of 584 employees). TAT believes that its engineering staff provides it with the ability to support its customers with innovative and efficient products while maintaining short product development cycles, high quality design and competitive pricing.

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

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

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

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

Research and Development

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

Source and Availability of Raw Materials and Spare Parts

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

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

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

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

Israeli Export Policy

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

Proprietary Rights

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

B. Government Regulations

Aerospace and Safety Regulations

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

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

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

Israeli Regulations

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

Environmental Matters

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

Although TAT seeks to maintain its operations and facilities in compliance with applicable environmental laws, there can be no assurance that TAT has no violations, or that change in such laws, regulations or interpretations of such laws or in the nature of TAT's operations will not require TAT to make significant additional expenditures to ensure compliance in the future. Currently, TAT does not believe that it will have to make material capital expenditures for its operations to comply with environmental laws or regulations, or to incur material costs for environmental remediation during the 2011 fiscal year.

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

C. Organizational Structure

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

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

D. Property, Plants and Equipment

The Gedera facility is located in Park Re'em near Gedera. The Park Re'em's location houses TAT's executive offices, Gedera's research and development and manufacturing operations and includes a 344,000 square foot facility. The land of this facility is leased from the Israeli Government pursuant to a lease that expires in 2016 with respect to one plot (237,000 square feet) and 2020 with respect the other plot (107,000 square feet). 43,000 square feet of the facility was assigned, but not registered, to TAT by TAT Industries in connection with TAT's acquisition of TAT Industries' heat exchanger operations in December 1991. TAT leases the remaining 301,000 square feet of the facility from TAT Industries pursuant to an agreement TAT entered into in connection with the purchase of the operations relating to the manufacture of aviation accessories of TAT Industries in February 2000. The agreement is for a period of 24 years and 11 months and the rental fee is subject to revaluation every fifth year. From 2000 to 2004, TAT paid TAT Industries annual rental fees of approximately $300,000 per year, with an additional incremental payment of 2% per year. In 2005 the rental fee was reviewed by a real estate appraiser, and as a result was increased to $310,000 per year with an additional incremental payment of 2% per year. In 2010 the rental fee was reviewed again by a real estate appraiser, and as a result was increased to $400,000 per year with an additional incremental payment of 2% per year. Total rental payment TAT paid to TAT Industries during 2010 and 2009 were $371,000 and $335,000, respectively.

The operations of Bental, are conducted in Kibbutz Marom-Golan. The Marom-Golan location includes a 54,000 square feet facility that houses Bental's offices, research and development and manufacturing operations. Total rental payment Bental paid in 2010 and 2009 was $50,000 and $55,000, respectively.

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

Limco leases approximately 56,000 square feet space for its facility in Kernersville, North Carolina to support its aftermarket APU, Landing Gear and related component repair station. In 2010 and 2009, the annual rental expense for this property was $69,000 for each one of these years. The lease, which expires on November 1, 2011, provides for two renewal options, each for a five year term.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

Operating Results

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

Overview

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

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

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

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

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

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

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

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

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

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

TAT's selling and marketing expenses for all its operational segments moderately decreased during the past year. While TAT plans to tightly monitor and save on its operating expenses, TAT believes that its selling and marketing expenses may increase in the future in accordance with its plans to grow the business of these segments.

TAT's general and administrative expenses have decreased during 2010, following an increase in 2009 comparing to the previous year, primarily as a result of one time expenses occurred in 2009 associated with the write off of a customer debt, the merger of TAT with its a wholly-owned subsidiary, Limco and relocation expenses born by Limco (see further below). While TAT plans to tightly monitor and save on its operating expenses, TAT believes that its general and administration expenses may increase in the future in accordance with its plans to grow the business of these segments.

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

In July 2007, Limco completed an initial public offering of its shares of common stock. In connection with the initial public offering, Limco sold an aggregate amount of 4,205,000 shares of its common stock (including over allotment option shares) and TAT sold an aggregate amount of 855,000 shares of Limco's common stock held by TAT (including over allotment option shares), at a price to the public of $11.00 per share. Net proceeds to Limco from the offering were approximately $41.2 million and net proceeds to TAT from the offering were approximately $8.7 million. As a result, TAT recognized a net capital gain of approximately $26.4 million net of taxes of $1.2 for the year ended December 31, 2007.

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

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

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

FAvS' shares are quoted over the counter (OTC) at the NASDAQ stock market. FAvS' share value as of the closing date (December 4, 2009) and as of December 31, 2009 and 2010, was $0.89, $0.75 and $0.62, respectively. TAT believes that the share value does not reflect the fair value of FAvS shares, because the extremely low trading volume in FAvS' shares does not reflect an active market. Therefore the fair value of FAvS was based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers. According to the appraisal, FAvS' fair value amounted to $22.549 million as of November 30, 2009. As a result of the sale of Piedmont's propeller and spare parts businesses, TAT recorded a capital gain in the amount of $4.4 million in its statement of income.

During the year ended December 31, 2010, TAT recorded write down of inventory in the amount of $3.5 million attributable to inventory of the MRO segment. In 2010 management recognized that the aviation industry is not recovering as fast as it previously estimated, from year 2009 recession and that the industry does not expects a growth in the rates as was experienced in prior years. As a result management reduced its future forecasted sales levels and profitability margins resulting from the said anticipated weakness in the global aviation industry in general and to a greater extent in the U.S., where the MRO segment is operated under Limco and Piedmont.

During the year ended December 31, 2010, the Company performed its annual impairment test of goodwill. Based on the results of this test, the Company encountered adverse changes in the business climate including a weak U.S. and global economy which resulted in a reduction in demand for the MRO services. In year 2010 management also recognized that the aviation industry is not recovering as fast as it previously estimated, from year 2009 recession and that the industry does not foresee a pick up in the growth rates as was experienced in prior years. As a result management reduced its future forecasted sales levels and profitability margins resulting from the said anticipated weakness in the global aviation and revised its future cash flow expectations, which lowered the fair value estimates of a certain reporting unit. The Company determined under the second step of its annual test that the fair value of goodwill at its MRO reporting unit was less than the carrying value for this reporting unit. The Company recorded a $4.2 million impairment charge in the third quarter of 2010 to reflect the implied fair value of goodwill for the MRO reporting unit.

The Company also reviewed its other intangible assets for impairment, in accordance with ASC 360. The Company estimated the fair value of its other intangible assets using a discounted cash flow analysis and compared those values to the carrying value of the assets. The Company concluded, based on this comparison, that customer relations were impaired at its MRO reporting unit. The Company recorded a $0.48 million impairment charge during the year ended December 31, 2010 to reflect the fair value of those customer relations for the MRO reporting unit.

As of December 31, 2010, TAT recognized an impairment charge of $1.8 million of its 37% interest in FAvS, which was based on an independent appraisal.

Sources of Revenues

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

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

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

The following table reflects the geographic breakdown of TAT's revenues for each of the three years ended December 31, 2010:

	Years Ended December 31,								
	2010			2009			2008		
	Revenues in Thousands	% of Total Revenues		Revenues in Thousands	% of Total Revenues		Revenues in Thousands	% of Total Revenues	
Sale of products									
North America	$7,531	19.3	%	$7,554	21.7	%	$8,233	26.0	%
Europe	5,567	14.3	%						