Fitzgerald Walter L.
Form 4
February 22, 2012

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Fitzgerald Walter L.

(Last) (First) (Middle)

P.O. BOX 4567

(Street)

HOUSTON, TX 77210

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CENTERPOINT ENERGY INC [CNP]

3. Date of Earliest Transaction (Month/Day/Year)
02/21/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Sr VP and CAO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/21/2012		F		1,323 (1)	D	$ 19.01	57,053	D	
Common Stock								5,843	I	By Savings Plan (2)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Fitzgerald Walter L. P.O. BOX 4567 HOUSTON, TX 77210			Sr VP and CAO	

Signatures

Walter L. Fitzgerald	02/22/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares withheld for taxes upon vesting of 2009 award of time based stock with performance goal reported on Form 4 dated January 23, 2012.

(2) Equivalent Shares held in CenterPoint Energy, Inc. Savings Plan as of 02/01/2012.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. FAMILY: Times New Roman; FONT-SIZE: 10pt">133

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

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

Information Reporting and Backup Withholding

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

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

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

U.S. Gift and Estate Tax

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

E. Dividends and Paying Agents

Not applicable.

F. Statement by Experts

Not applicable.

G. Documents on Display

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

As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act and transactions in our equity securities by our officers and directors are exempt from reporting and the “short-swing” profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. However, we make available on our website www.tat-technologies.com, our annual audited financial statements, which have been examined and reported on, with an opinion expressed by an independent public accounting firm, and we intend to file reports with the Securities and Exchange Commission on Form 6-K containing unaudited financial information for the first three quarters of each fiscal year.

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

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

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

H. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

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

Effects of Currency Exchange Fluctuations

Our financial statements are stated in dollars, while a portion of our expenses, primarily labor expenses, is incurred in NIS and a part of our revenues are quoted in NIS. The company entered into Forward transactions in order to minimize its currency risk from expenses paid in NIS. Additionally, certain assets, as well as a portion of our liabilities, are denominated in NIS. As a result, our operations may be affected by fluctuations of the U.S. dollar/NIS exchange rate. During 2013 the NIS appreciated against the U.S. dollar by 7.5%. Such trend was continued through the end of 2014, during which the NIS appreciated by additional 12% by the end of 2014. During 2015 the exchange rates between the NIS and the U.S. dollar have not changed materially. We estimate that a devaluation of 1% of the U.S. dollar against the NIS would result in a decrease of approximately $220,000 in our operating income.

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders

None.

Item 15. Controls and Procedures

(a) Disclosure Controls and Procedures

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

(b) Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use of disposition of the company's assets that could have a material effect on the financial statements.

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on that assessment, our management concluded that as of December 31, 2015, our internal control over financial reporting is effective.

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

(d) Changes in Internal Control over Financial Reporting

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

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that each member of our audit committee each of whom also qualifies as independent director, meets the definition of an audit committee financial expert, as defined by rules of the Securities and Exchange Commission. For a brief listing of the relevant experience of the member of our audit committee, see Item 6.A. “Directors, Senior Management and Employees — Directors and Senior Management.”

Item 16B. Code of Ethics

We have adopted a code of ethics that applies to our chief executive officer and all senior financial officers of our company, including the chief financial officer, chief accounting officer or controller, or persons performing similar functions. The code of ethics is publicly available on our website at www.tat-technologies.com . Written copies are available upon request. If we make any substantive amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the codes of ethics, we will disclose the nature of such amendment or waiver on our website.

Item 16C. Principal Accountant Fees and Services

Fees Paid to Independent Public Accountant

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

	Year Ended December 31,	
Services Rendered	2015	2014
Audit (1)	$ 219,000	$ 193,000
Tax (2)	80,000	40,000
Total	$ 299,000	$ 233,000

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

Pre-Approval Policies and Procedures

Our Audit Committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accounting firm Kesselman & Kesselman, a member of PricewaterhouseCoopers International Ltd. Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the audit committee's approval of the scope of the engagement of our independent auditor, or on an individual basis. Any proposed services exceeding general pre-approved levels also require specific pre-approval by our audit committee. The policy prohibits retention of the independent public accountants to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act or the rules of the SEC, and also requires the Audit Committee to consider whether proposed services are compatible with the independence of the public accountants.

Item 16D. Exemptions from the Listing Standards for Audit Committee

Not Applicable.

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

Not Applicable.

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

Not Applicable.

Item 16G. Corporate Governance

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

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

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

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

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

PART III

Item 17. Financial Statements

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

Item 18. Financial Statements

Consolidated Financial Statements of the Company

Item 19. Exhibits

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

1.1 Memorandum of Association of the Registrant (1)

1.2 Articles of Association of the Registrant (filed herewith) (8)

2.1 Specimen Certificate for Ordinary Shares (1)

4.1 2012 Stock Option Plan (7)

4.2 Agreement dated February 10, 2000, by and between the Registrant and TAT Industries Ltd. (English summary translation) (2)

4.3 English translation of Share Sales Agreement, dated March 27, 2008, by and between the Registrant and Bental Investments Cooperative Agricultures Society Ltd. (5)

4.4 English translation of Shareholders' Agreement, dated May 21, 2008, by and between the Registrant, Tat Industries Ltd. and Bental Investments Cooperative Agricultures Society Ltd. (5)

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4.5 English translation of Amendment to the Share Sales and Options Agreement and the Shareholders’ Agreement, dated May 21, 2008, by and between the Registrant, Tat Industries Ltd. and Bental Investments Cooperative Agricultures Society Ltd. (5)

4.6 English translation of Share Sales Agreement dated April 15, 2008, by and between the Registrant and Mivtach Shamir Investments (1993) Ltd. (5)

4.7 Agreement and Plan of Merger dated April 3, 2009 by and between the Registrant, Limco-Piedmont, Inc. and LIMC Acquisition Company (4)

4.8 TAT's Executive and Directors Compensation Policy (8)

4.9 Form of Officers Indemnification Undertaking (8)

5.0 Report of Independent Registered Public Accounting Firm

8 List of Subsidiaries of the Registrant

12.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended

12.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended

13.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

13.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

14.1 Consent of independent registered public accounting firm

14.2 Consent of Independent Registered Public Accounting Firm

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(1) Filed as an exhibit to the Registrant’s Annual Report on Form 20-F for the year ended December 31, 1992, and incorporated herein by reference.

(2) Incorporated by reference to the Registrant's Annual Report on Form 20-F for the year ended December 31, 1999, and incorporated herein by reference.

(3) Incorporated by reference to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2006, and incorporated herein by reference.

(4) Filed as an exhibit to the Registrant's Registration Statement on Form F-4 filed on May 7, 2009 and incorporated herein by reference.

(5) Filed as an exhibit to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2007, and incorporated herein by reference.

(6) Filed as an exhibit to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2010, and incorporated herein by reference.

(7) Filed as an exhibit to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2012, and incorporated herein by reference.

(8) Filed as an exhibit to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2013, and incorporated herein by reference.

(8) Filed as an exhibit to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2014, and incorporated herein by reference.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

TAT TECHNOLOGIES LTD.

By: /s/ Guy Nathanzon
Guy Nathanzon
Chief Financial Officer
(Principal Accounting Officer)

Date: April 20, 2016

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TAT TECHNOLOGIES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015

TAT TECHNOLOGIES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of
TAT Technologies Ltd.

We have audited the accompanying consolidated balance sheets of TAT Technologies Ltd. and its subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of First Aviation Services Inc., an equity method investee through March 2015, as of December 31, 2014 and for the years ended December 31, 2014 and 2013. The First Aviation Services Inc. financial statements audited by other auditors were prepared on a "historical" basis (prior to basis adjustments primarily related to impairment charges recorded by the Company) and reflect total net assets of $8,935,000 as of December 31, 2014 and total net income of $727,000 and $3,158,000 for the years ended December 31, 2014 and 2013 , respectively (subsequently adjusted by the Company to net assets of $2,556,000 and net income of $267,000, and $1,025,000 respectively, to reflect the share in the results of First Aviation Services Inc. and other adjustments primarily related to impairment charges recorded by the Company). We audited the adjustments necessary to convert the "historical" basis financial statements of First Aviation Services Inc. to the basis reflected in the Company's consolidated financial statements. The First Aviation Services Inc. financial statements were audited by other auditors (whose report thereon dated March 4, 2015 expressed an unqualified opinion on those financial statements) has been furnished to us, and our opinion expressed herein, insofar as it relates to the historical amounts included for First Aviation Services Inc., is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TAT Technologies Ltd. and its subsidiaries at December 31, 2015 and 2014 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for the classification of deferred taxes in the consolidated balance sheets due to the adoption of ASU 2015-17, Balance Sheet Classification of Deferred Taxes.

Tel-Aviv, Israel
April 20, 2016

/s/ Kesselman & Kesselman
Certified Public Accountants (lsr.)
A member firm of PricewaterhouseCoopers International Limited

Kesselman & Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 6812508, Israel,

P.O Box 50005 Tel-Aviv 6150001 Telephone: +972 -3- 7954555, Fax:+972 -3- 7954556, www.pwc.com/il

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TAT TECHNOLOGIES LTD.

CONSOLIDATED BALANCE SHEETS

U.S dollars in thousands

	December 31, 2015	2014 (Revised)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$18,688	$22,894
Short-term bank deposits	8,122	5,089
Accounts receivable, net	19,151	15,657
Other current assets and prepaid expenses	3,025	2,604
Inventory, net	36,664	35,477
Total current assets	85,650	81,721
NON-CURRENT ASSETS:		
Investment in First Aviation Services Inc.	169	2,556
Funds in respect of employee rights upon retirement	2,626	2,496
Deferred income taxes	890	879
Intangible assets, net	1,314	-
Property, plant and equipment, net	18,934	11,524
Total non-current assets	23,933	17,455
Total assets	$109,583	$99,176

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

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TAT TECHNOLOGIES LTD.

CONSOLIDATED BALANCE SHEETS

U.S dollars in thousands, except share data

	December 31,	
	2015	2014 (Revised)
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 7,022	$ 5,886
Accrued expenses	7,815	5,060
Total current liabilities	14,837	10,946
NON CURRENT LIABILITIES:		
Other long-term liabilities	189	34
Liability in respect of employee rights upon retirement	2,871	2,655
Deferred income taxes	262	-
Total non-current liabilities	3,322	2,689
COMMITMENTS AND CONTINGENT LIABILITIES (NOTE 12)		
Total liabilities	18,159	13,635
EQUITY:		
Ordinary shares of NIS 0.9 par value : Authorized: 10,000,000 shares at December 31, 2015 and 2014; Issued: 9,082,817 shares at December 31, 2015 and 2014; Outstanding: 8,808,344 shares at December 31, 2015 and 2014	2,793	2,793
Additional paid-in capital	64,529	64,491
Treasury shares, at cost, 274,473 shares at December 31, 2015 and 2014	(2,088)	(2,088)
Accumulated other comprehensive loss	(4)	-
Retained earnings	26,194	20,345
Total shareholders' equity	91,424	85,541
Total liabilities and shareholders' equity	$ 109,583	$ 99,176

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

TAT TECHNOLOGIES LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S dollars in thousands

	Year ended December 31, 2015	2014 (Revised)	2013 (Revised)
Revenue:			
Products	$31,339	$31,363	$34,364
Services	54,268	49,363	45,187
	85,607	80,726	79,551
Cost of revenue:			
Products	24,466	23,616	25,143
Services	47,476	40,906	36,600
	71,942	64,522	61,743
Gross profit	13,665	16,204	17,808
Operating expenses:			
Research and development, net	890	1,070	713
Selling and marketing	2,903	3,203	3,150
General and administrative	8,469	8,123	8,668
Other expenses (income)	631	(11)	(20)
Gain on bargain purchase	(4,833)	-	-
	8,060	12,385	12,511
Operating income	5,605	3,819	5,297
Financial expenses	(1,262)	(2,510)	(947)
Financial income	913	1,216	897
Income from continuing operations before taxes on income	5,256	2,525	5,247
Taxes on income	644	1,360	1,041
Income from continuing operations before equity investment	4,612	1,165	4,206
Share in results of equity investment of affiliated company	1,237	267	1,025
Net income from continuing operations	5,849	1,432	5,231
Net loss from discontinued operations, net of tax	-	-	(2,429)
Net income attributable to TAT Technologies Ltd. shareholders	$5,849	$1,432	$2,802

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

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Explanation of Responses:

TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31, 2015	2014 (Revised)	2013 (Revised)
Basic and diluted income per share:			
Net income from continuing operations per share attributable to controlling interest	$0.66	$0.16	$0.60
Loss from discontinued operations per share attributable to controlling interest	-	-	(0.28)
	$0.66	$0.16	$0.32
Weighted average number of shares outstanding:			
Basic	8,808,344	8,805,495	8,799,237
Diluted	8,810,689	8,826,542	8,808,920

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

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TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S dollars in thousands

	Year ended December 31, 2015	2014 (Revised)	2013 (Revised)
Net income	$5,849	$1,432	$1,760
Other comprehensive income, net			
Currency translation adjustments	-	429	668
Net unrealized losses from derivatives	(5)	-	-
Reclassification adjustments for gains included in net income	1	-	-
Total other comprehensive income	(4)	429	668
Total comprehensive income	$5,845	$1,861	$2,428
Comprehensive loss attributable to non-controlling interest	-	-	842
Comprehensive income attributable to shareholders	$5,845	$1,861	$3,270

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

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TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

U.S dollars in thousands, except share data

	Share capital							
	Number of shares issued	Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Treasury shares	Retained earnings (revised)	Non-controlling interest	Total equity (revised)
BALANCE AT DECEMBER 31, 2012	9,073,043	$ 2,790	$ 64,410	$ (897)	$ (2,088)	$ 18,111	$ 2,803	$ 85,129
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2013:								
Comprehensive income (loss)	-	-	-	468	-	2,802	(842)	2,428
Share based compensation	-	-	3	-	-	-	-	3
Exercise of options	6,666	2	41	-	-	-	-	43
BALANCE AT DECEMBER 31, 2013	9,079,709	$ 2,792	$ 64,454	$ (429)	$ (2,088)	$ 20,913	$ 1,961	$ 87,603
CHANGES DURING THE YEAR ENDED DECEMBER 31, 2014:								
Comprehensive income	-	-	-	429	-	1,432	-	1,861
Share based compensation	-	-	38	-	-	-	-	38
Exercise of option	3,108	1	(1)	-	-	-	-	-
Dividend distributed	-	-	-	-	-	(2,000)	-	(2,000)
Sale of subsidiary	-	-	-	-	-	-	(1,961)	(1,961)
BALANCE AT DECEMBER 31, 2014	9,082,817	$ 2,793	$ 64,491	$ -	$ (2,088)	$ 20,345	$ -	$ 85,541
CHANGES DURING THE YEAR								

ENDED DECEMBER 31, 2015:								
Comprehensive income (loss)	-	-	-	(4)	-	5,849	-	5,845
Share based compensation	-	-	38	-	-	-	-	38
BALANCE AT DECEMBER 31, 2015	9,082,817	$2,793	$64,529	$ (4)	$(2,088)	$26,194	-	$91,424

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

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TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income attributable to TAT Technologies Ltd. shareholders	$5,849	$1,432	$2,802
Net loss from discontinued operations	-	-	2,429
Income from continuing operations	5,849	1,432	5,231
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,781	2,069	1,859
Exchange differentials of loans	-	(1)	23
Write down of inventory	-	-	67
Gain (loss) on sale of property, plant and equipment	-	10	(20)
Gain from change in fair value of derivatives	10	-	(27)
Interest from short-term bank deposits and restricted deposits	(33)	(128)	(11)
Provision for doubtful accounts	206	-	17
Share in results and sale of equity investment of affiliated company	(1,237)	(267)	(1,025)
Share based compensation	38	38	3
Gain on bargain purchase	(4,833)	-	-
Liability in respect of employee rights upon retirement	28	(485)	286
Deferred income taxes, net	(21)	1,229	71
Changes in operating assets and liabilities:			
Amounts due to (from) related parties, net	-	5	(63)
Decrease (increase) in trade accounts receivable	(2,375)	2,730	(1,001)
Decrease (increase) in other current assets and prepaid expenses	(85)	(833)	1,195
Decrease (increase) in inventory	(571)	(6,009)	679
Increase (decrease) in trade accounts payable	436	(509)	278
Increase (decrease) in accrued expenses	525	(715)	(417)
Increase (decrease) in other long-term liabilities	15	(24)	58
Net cash provided by (used in) operating activities	733	(1,458)	7,203
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of subsidiary (A)	-	2,176	-
Acquisitions of subsidiary, net of cash acquired in the amount of $1,164 (see note 3a)	(1,796)	-	-
Proceeds from sale of equity investment of affiliated company	3,624	-	-
Funds in respect of employee rights upon retirement	8	352	(48)
Proceeds from sale of property and equipment	9	19	51
Purchase of property and equipment	(3,315)	(3,021)	(2,240)
Investment in short-term deposit	(8,109)	-	-
Maturities of short-term deposits	5,109	5,098	-
Proceeds released from restricted deposits	-	-	2,307
Net cash provided by (used in) investing activities	$(4,470)	$4,624	$70

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

TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2015	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of long-term loans	-	$(883)	$(2,286)
Dividend paid	-	(2,000)	-
Repayments of short-term loans	(469)	(26)	(719)
Short-term credit received from a bank	-	-	26
Exercise of options	-	-	43
Net cash used in financing activities	(469)	(2,909)	(2,936)
CASH FLOWS FROM DISCONTINUED OPERATIONS:			
Cash provided by operating activities of discontinued operations	-	-	685
Cash provided by investing activities of discontinued operations	-	-	(31)
Cash used in financing activities of discontinued operations	-	-	(304)
Effect of exchange rate changes on cash and cash equivalents of discontinued operations	-	-	164
Net cash provided by discontinued operations	-	-	514
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,206)	257	4,851
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	22,894	22,637	17,786
CASH AND CASH EQUIVALENTS AT END OF YEAR	18,688	22,894	22,637
LESS – CASH AND CASH EQUIVALENT OF DISCONTINUED OPERATIONS AT END OF YEAR	-	-	2,823
CASH AND CASH EQUIVALENTS OF CONTINUING OPERATIONS AT END OF YEAR	$18,688	$22,894	$19,814
SUPPLEMENTARY INFORMATION ON INVESTING ACTIVITIES NOT INVOLVING CASH FLOW:			
Purchase of property, plant and equipment on credit	$76	$44	$590
Supplemental disclosure of cash flow information:			
Interest paid	$(4)	$(15)	$(89)
Income taxes paid	$(1,321)	$(571)	$(961)
Income taxes refunds	$613	$613	$1,383
(A) Proceeds from sale of subsidiary			
Assets held for sale (excluding cash in the amount of $2,823)	-	7,136	-
Liabilities held for sale	-	(3,428)	-
Non-controlling interest	-	(1,532)	-
	$-	$2,176	$-

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

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Explanation of Responses:

NOTE 1 - GENERAL

TAT Technologies Ltd., (“TAT” or the “Company”) an Israeli corporation, incorporated in 1985, is a leading provider of services and products to the commercial and military aerospace and ground defense industries. TAT’s shares are listed on both the NASDAQ (TATT) and Tel-Aviv Stock Exchange.

a. TAT has the following wholly-owned subsidiaries: Limco-Piedmont Inc. (“Limco-Piedmont”), Turbochrome Ltd. (“Turbochrome”) and TAT Gal Inc. (“TAT Gal”). Additionally the Company holds 51% of, TAT-Engineering LLC (“TAT-Engineering”), hereinafter collectively referred to as the “Group”. TAT is principally engaged in the following activities:

- Design, development, manufacture and sale of a broad range of heat transfer equipment and solutions;
- Remanufacture, overhaul and repair of heat transfer equipment;
- Maintenance, repair and overhaul of auxiliary power units, landing gears and related components;
- overhaul and coating of jet engine components, including turbine vanes and blades, fan blades, variable inlet guide vanes, afterburner flaps and other components;

The products developed, repaired, and maintained by the Group are primarily used for airborne systems on commercial and military aircrafts as well as for defense ground systems.

b. On March 11, 2015, Piedmont Aviation Component Services, LLC , an indirect subsidiary of TAT, entered into an agreement to sell 237,932 shares of Class B Common Stock of First Aviation Services Inc. ("FAvS") representing 23.18% of FAvS' share capital and its entire holdings (16,253) of FAvS' Series A Preferred stock (see note 3). After the transaction the company owns 4.9% of FAvS’ shares.

c. On October 19, 2015, the company acquired 100% of Chromalloy Israel Ltd.. Following the completion of the transaction, Chromalloy Israel changed its name to Turbochrome Ltd. (“Turbochrome Ltd.”) see also note 3.

d. On November 25, 2015, the company signed an agreement with Engineering Holding of Moscow, Russia (“Engineering”), to establish a new maintenance facility for heat exchangers. The new company, TAT-Engineering LLC, will be based in Novosibirsk’s Tolmachevo airport. TAT - Engineering, LLC shall provide services of minor repair, overhaul and recore of aviation heat transfer components. According to the agreement 51% of the shares will be held by the company and the remaining 49% will be held by Engineering. The accounting treatment will be based on the equity method due to the participation rights given to Engineering. The new entity was established in January 2016, and there is no activity related to TAT-Engineering LLC in 2015.

U.S. dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

The Group's financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

b. Use of estimates in the preparation of financial statement

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

As applicable to these financial statements, the most significant estimates and assumptions relate to: recoverability of inventory, provision for doubtful accounts, purchase price allocation on acquisition, income taxes, impairment of long-lived assets, revenue recognition generated from long-term contracts and contingent consideration.

c. Functional currency

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

Transactions and balances originally denominated in dollars are presented at their original amounts. Balances in currencies other than the U.S. dollar are translated into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions and other items in the statements of income (indicated below), the following exchange rates are used: (i) for transactions – exchange rates at transaction dates or average rates; and (ii) for other items (derived from non-monetary balance sheet items such as depreciation and amortization, etc.) – historical exchange rates. Currency transaction gains and losses are carried to financial income or expenses, as appropriate.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

d. Principles of consolidation

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

Intercompany balances and transactions, including profits from intercompany sales not yet realized outside the Group, have been eliminated upon consolidation. Non-controlling interests are included in equity.

e. Cash and Cash equivalents

All highly liquid investments, which include short-term bank deposits and money market accounts, that are not restricted as to withdrawal or use, and short-term debentures, the period to maturity of which do not exceed three months at the time of investment, are considered to be cash equivalents.

f. Short-term bank deposits

Bank deposits with maturities of more than three months but less than one year are included in short-term deposits. Such short-term deposits bear interest at an average annual rate of approximately 0.6% in both 2015 and 2014.

g. Accounts receivable, net

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

TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

h. Inventory

Inventory is measured at the lower of cost or market.

Inventories include raw materials, parts, work in progress and finished products.
Cost of raw material and parts is determined using the “moving average” basis. Cost of work in progress and finished products is calculating based on actual costs Capitalized production costs components, mainly labor and overhead, is determine on average basis over the production period.

If actual market prices are less favorable than those projected by management, inventory write-downs may be required. Once written-down, a new lower cost basis for that inventory is established.

Since the Group sells products and services related to airplane accessories for airplanes that can be in service for 20 to 50 years, it must keep a supply of such products and parts on hand while the airplanes are in use. The Group writes down its inventory for estimated obsolescence and unmarketable inventory equal to the difference between the cost of inventory and estimated market value based upon assumptions for future demand and market conditions.

i. Property, plant and equipment

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

	years
Buildings	7 - 39
Machinery and equipment	3 - 17
Motor vehicles	6 - 7
Office furniture and equipment	3 - 17
Software	5

Leasehold improvements are included in buildings and amortized using the straight line method over the period of the lease contract, or the estimated useful life of the asset, whichever is shorter.

j. Grants from Office of the Chief Scientist of Israel ("OCS"):

Grants received from the OCS for approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a deduction from research and development expenses. Due the fact that the Company is defined as a "Traditional Industry Company", under the OCS regulations, these grants are non-royalty bearing.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

k. Investment in company accounted for using the Equity Method

Investment in which the Group exercises significant influence and which is not considered a subsidiary ("affiliate") is accounted for using the equity method, whereby the Group recognizes its proportionate share of the affiliated company's net income or loss after the date of investment.

The Group reviews this investment for impairment whenever events indicate the carrying amount may not be recoverable. See note 3(b).

l. Identified intangible assets

Identifiable intangible assets are comprised of definite lived intangible. Definite lived intangible assets consist mainly of customer relationships.
Definite lived intangible assets are amortized using the straight-line method over their estimated period of useful life which is determined by identifying the period in which
Substantially all of the cash flows are expected to be generated. Amortization of customer relationships is recorded under marketing and selling expenses.

m. Impairment of long-lived assets

Long-lived assets, including definite life intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets (or asset group) may not be recoverable. In the event that the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets (or asset group) is less than the carrying amount of such assets, an impairment charge would be recognized and the assets (or asset group) would be written down to their estimated fair values (see also notes 6 and 9).

n. Treasury Shares

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

U.S. dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

o. Revenue recognition

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

Revenues from the sale of products are recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred, provided the collection of the resulting receivable is reasonably assured, the price is fixed or determinable and no significant obligation exists. The Group does not grant a right of return.

Revenues from multi-year, fixed price contracts for OEM customers are recognized when a product is shipped (and title passed) to the customer. Management provides for losses as soon as a loss is expected for the remaining portion of such contracts. For the years ended December 31, 2015, 2014 and 2013, no losses have been recognized for such fixed price contracts.

Revenues from MRO services are generally recognized when services are completed and the item is shipped back to the customer. In cases in which contracts require exchanging a defective landing gear for a restored gear, the non-refundable minimum amounts from these contracts are recognized on the exchange date (delivery of the product has occurred), and any additional amounts billed to the customer for excess hours of repair, are recognized when the customer approve the price for these additional services.

Revenues from maintenance contracts are recognized over the contract period in proportion to the costs expected to be incurred in performing services under the contract. The Group estimates the costs that are expected to be incurred based on its historical experience. The costs incurred related to the maintenance contracts are not incurred on a straight-line basis, as the timing to provide the maintenance services is dependent on when parts under these contracts require maintenance. Therefore, the Group accrues revenue as costs are incurred. These contracts are reviewed on a timely basis and adjusted (if required) based on total expected cost.

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

p. Shipping and handling costs

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

q. Warranty costs

The Group 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.

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

r. Research and development

Research and development costs, net of grants, are charged to expenses as incurred.

s. Fair value measurement

The Group measures fair value and discloses fair value measurements for financial and non-financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data or active market data for similar but not identical assets or liabilities.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Group utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers credit risk in its assessment of fair value.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

t. Concentrations of credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, derivatives and accounts receivable.

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

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

U.S. dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

u. Income taxes

Income taxes are accounted for in accordance with ASC 740 "Income Taxes". This statement prescribes the use of the asset and liability method, whereby deferred tax assets and liabilities account balances are determined based on temporary differences between financial reporting and tax basis of assets and liabilities and for tax loss carry-forwards. Deferred taxes are measured using the enacted laws and tax rates that will be in effect when the differences are expected to reverse. The Group provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value, see note 15(h).

Taxes which would apply in the event of disposal of investments in foreign subsidiaries have not been taken into account in computing the deferred taxes, when the Group’s intention is to hold, and not to realize the investments.

With regard to dividends distributable from the income of foreign subsidiaries: as the Group intends to permanently reinvest retained earnings and has no intention to declare dividends out of such earnings in the foreseeable future it does not record deferred taxes in respect of taxes that would have been paid in such event.

The Group did not provide for deferred taxes attributable to dividend distribution out of retained tax-exempt earnings from "Approved/Benefited Enterprise" plans (see note 15(a)), since it intends to permanently reinvest them and has no intention to declare dividends out of such tax exempt income in the foreseeable future. Management considers such retained earnings to be essentially permanent in duration. The payment of dividend in 2014 was paid from earnings from regular income of the Israeli company.

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

U.S. dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

v. Income taxes (cont.)

The Group follows a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate resolution. The Group’s policy is to include interest and penalties related to unrecognized tax benefits within financial income (expense). Such liabilities are classified as long-term, unless the liability is expected to be resolved within twelve months from the balance sheet date.

w. Discontinued operations

Operations of a business are reported as discontinued operations if the business is classified as held for sale, the operations and cash flows of the business have been or will be eliminated from our ongoing operations as a result of a disposal transaction and we will not have any significant continuing involvement in the operations of the business after the disposal transaction. The results of discontinued operations are reported in discontinued operations in the consolidated statement of operations for current and prior periods commencing in the period in which the business meets the criteria of a discontinued operation, and include any gain or loss recognized on closing or adjustment of the carrying amount to fair value less cost to sell.

x. Earnings per share

Basic earnings per share are computed by dividing net income by the weighted average number of shares of the Company's Ordinary Shares, par value NIS 0.9 per share outstanding for each period.

Diluted earnings per share are calculated by dividing the net income by the fully-diluted weighted-average number of ordinary shares outstanding during each period. Potentially dilutive shares include outstanding options granted to employees.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

y. Share-based compensation

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

The Group recognizes compensation cost for an award with only service conditions that has a graded vesting schedule using the accelerated method over the requisite service period for the entire award. For an award with performance conditions that has a graded vesting schedule, compensation cost is recognized upon meeting such conditions, using the accelerated method over the requisite service period for the entire award.

z. Comprehensive income

Comprehensive income in 2015 includes, in addition to net income or loss, gains and losses of derivatives (net of related taxes where applicable). In 2014 and 2013, comprehensive income includes, currency translation adjustments that were related to the subsidiary that was sold in 2014. See also note 5.

Reclassification adjustments for gain or loss of derivatives are included in the relevant line item in operating expenses based on the employees function in the statement of income. See also note 2 (cc).

aa. Business Combinations

When the Company acquires a business, the purchase price is allocated based on the fair value of tangible assets and identifiable intangible assets acquired, and liabilities assumed. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Goodwill as of the acquisition date is measured as the residual of the excess of the consideration transferred, plus the fair value of any noncontrolling interest in the acquiree at the acquisition date, over the fair value of the identifiable net assets acquired. If the fair value of the net assets acquired exceeds the purchase price, the resulting bargain purchase is recognized as a gain in the consolidated statement of operations. The Company generally engages independent, third-party appraisal firms to assist in determining the fair value of assets acquired and liabilities assumed. Such a valuation requires management to make significant estimates, especially with respect to intangible assets. These estimates are based on historical experience and information obtained from the management of the acquired companies. These estimates are inherently uncertain. For all acquisitions, operating results are included in the consolidated statement of operations from the date of acquisition.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

bb. Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Group but which will only be resolved when one or more future events occur or fail to occur. The Group's management assesses such contingent liabilities and estimated legal fees, if any, and accrues for these costs. Such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Group or unasserted claims that may result in such proceedings, the Group's management evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

Management applies the guidance in ASC 450-20-25 when assessing losses resulting from contingencies. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is recorded as accrued expenses in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material are disclosed.

Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

cc. Derivatives and hedging

The Company carries out transactions involving foreign currency exchange derivative financial instruments. The transactions are designed to hedge the Company's exposure in currencies other than the U.S. dollar. The Company recognizes derivative instruments as either assets or liabilities and measures those instruments at fair value. For derivative instruments that are designated and qualify as a cash-flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the anticipated transaction in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of a derivative designated as a cash flow hedge is recognized in "financial expense (income), net". If a derivative does not meet the definition of a cash flow hedge, the changes in the fair value are included in "financial expense (income), net".

U.S. dollars in thousands

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

dd. Recently Issued Accounting Principles:

(1) During November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred income taxes. ASU 2015-17 provides presentation requirements to classify deferred tax assets and liabilities as noncurrent in a classified statement of financial position. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted for any interim and annual financial statements that have not yet been issued. We early adopted ASU 2015-17 effective October 31, 2015, retrospectively. Adoption resulted in a $1.1 million decrease in other accounts receivable and prepaid expenses, a $0.9 million increase in Long-term deferred tax assets, net, and a $0.2 million decrease in long-term deferred tax liability, net in our consolidated balance sheets at December 31, 2014. Adoption had no impact on our results of operations and cash flow.

(2) In September 2015, the FASB issued ASU 2015-16, Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement to restate prior period financial statements for measurement period adjustments. The guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. We early adopted this guidance in our fourth quarter of fiscal 2015. See “Note 3 — Acquisitions”. Adoption had no impact on the Company's financial statements as of December 31, 2015.

(3) In February 2015, the FASB issued amended guidance on current accounting for consolidation of certain entities. Pursuant to this guidance, reporting enterprises should evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity ("VIE"), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. The guidance is effective for the interim and annual periods beginning on or after December 15, 2015. The Company does not expect this guidance to have a material effect on its consolidated financial statements at the time of adoption of this standard.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT)

dd. Recently Issued Accounting Principles (cont.):

(4) In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 (ASU 2014-09) "Revenue from Contracts with Customers." ASU 2014-09 will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue upon the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances.

The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted in annual periods beginning after December 15, 2016). The guidance permits the use of either a retrospective or cumulative effect transition method. The Company is currently evaluating the impact of the amended guidance on its consolidated financial statements.

(5) In July 2015, the FASB issued guidance on current accounting for inventory measurement. The new guidance requires entities to measure inventory at the lower of cost or net realizable value. Net realizable value is defined by the guidance as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016 (early adoption is permitted). The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

(6) In February 2016, the FASB issued ASU 2016-02 – Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance on its financial statements

TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 3 - BUSINESS COMBINATION AND INVESTMENT IN AN AFFILIATED COMPANY

a. Turbochrome

1. In August, 2015 the company entered into a definitive agreement to acquire Turbochrome Ltd.

On October 19, 2015, the company completed the share acquisition for approximately $3,500 (subject to certain price adjustments). The acquisition was funded through cash on hand. TAT shall pay additional amounts of up to $2,000 in the event that Turbochrome Ltd. meets certain annual revenue targets in 2015 and 2016 (See Note 12 (g) for additional information regarding the contingent consideration associated with this acquisition). Turbochrome Ltd., located in Israel, specializes in overhaul and coating of jet engine components, including turbine vanes and blades, fan blades, variable inlet guide vanes, afterburner flaps and other components. In connection with the acquisition, the company recognized a bargain purchase gain of $4,800 in the consolidated statement of operations for the year ended December 31, 2015. The bargain purchase gain was primarily related to the fair market value of certain the property, plant and equipment , in relation to replacement costs, and on the Company's expectation regarding its ability to increase the services that can be provided to Turbochrome's existing customers and to its own customers. As part of the purchase agreement the company assumed a committed to continue the engagement with Turbochrome’s CEO for 12 months from the day of closing. In December 2015, the company decided to terminate this employment agreement. The total termination expenses we included in the financial statements for 2015 were in the amount of approximately $300.

Turbochrome Ltd. results of operations and balance sheet were included in Company's consolidated financial statements commencing October 19, 2015.

2. Under the acquisition method of accounting, the total purchase price is allocated to the net tangible and intangible assets of Turbochrome, based on their fair values at the acquisition date. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable, but no later than one year from the acquisition date. No material change is expected.

The table below summarizes the fair value of assets acquired, liabilities assumed, intangible assets and resulting bargain purchase in Turbochrome –

Asset	Fair value
Cash and cash equivalents	1,164
Inventories	616
Other current assets	2,169
Property, plant and equipment	6,825
Identifiable intangible assets -	
Customers relationships	1,342
Current liabilities	(2,857)
Deferred Taxes	(271)
Accrued severance pay	(15)
Net Identifiable assets acquired	8,973

Gain from bargain purchase	(4,833)
Total consideration (including contingent consideration in amount of $640)	4,140

U.S. dollars in thousands

NOTE 3 - BUSINESS COMBINATION AND INVESTMENT IN AN AFFILIATED COMPANY (CONT)

a. Turbochrome (cont)

An amount of $1,342 of the purchase price was allocated to customer relationships.

As part of the acquisition, the Company acquired all existing customers of Turbochrome. Customers relationship is amortized over a period of 10 years.

Total transactions costs were approximately $303 and were recognized in earnings as other expenses.

The actual Turbochrome Ltd. net sales and net income included in the Company's consolidated statements of operations and comprehensive income for the year ended December 31, 2015 (for the period from October 19, 2015 acquisition date through December 31 ,2015) are as follows:

	U.S. dollars in thousands
Actual Turbochrome results of operations included in the consolidated results of operations:	
Revenue	1,905
Net loss attributable by Turbochrome	(163)

3. Below are certain unaudited pro forma condensed consolidated statements of operations data for the years ended December 31, 2015 and 2014, as if the acquisition of Turbochrome Ltd. had occurred at the beginning of the year 2014, after giving effect to purchase accounting adjustments. Including amortization of identifiable intangible assets and the gain on bargain purchase. Total transaction costs amounted to approximately $303. The gain on bargain purchase and transaction costs were included in net income for the year ended December 31, 2014

This unaudited pro forma financial information is not necessarily indicative of the combined results that would have been attained as if the acquisition takes place at the beginning of 2014 nor is it necessarily indicative of future results.

	Year ended December 31	
	2015	2014
Revenue	92,230	87,598
Net income	801	1,463
Earnings per share:		
Basic and Diluted	0.09	0.17

TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 3 - BUSINESS COMBINATION AND INVESTMENT IN AN AFFILIATED COMPANY (CONT)

b. FAvS

As of December 31, 2015 and 2014, the company has 4.9% and 28.08% of First Aviation Services ordinary shares, a provider of repair and overhaul, rotables management and related engineering services to the aviation industry worldwide.

On March 11, 2015, Piedmont Aviation Component Services, LLC , an indirect subsidiary of TAT, entered into an agreement to sell 237,932 shares of Class B Common Stock of FAvS representing 23.18% of FAvS' share capital and its entire holdings (16,253) of FAvS' Series A Preferred stock. The purchase price for the Class B Shares was $8.40 per Class B Shares, for an aggregate purchase price of $1,999, and the purchase price for the Series A Preferred stock was $100 per Preferred Share, for an aggregate purchase price of $1,625. The total gain from the sale of FAvS' stock was $1,198. After the transaction the company owns 4.9% of FAvS' ($169 at cost basis). From March 11, 2015 FAVS' investment is based on the cost method.

(1) Financial information

Condensed financial information from the FAvS consolidated balance sheets as of December 31, 2014:

	December 31, 2014
Current assets	$ 10,596
Long-term assets	8,927
Total assets	19,523
Current liabilities	5,964
Long-term liabilities	4,624
Total liabilities	$ 10,588

Condensed financial information from the FAvS consolidated statements of operations for each of the two years in the period ended December 31, 2014:

	Year ended December 31, 2014	2013
Net sales	$ 24,442	$ 23,445
Gross profit	7,342	6,182
Income (loss) from continuing operations	827	(341)
Net income	727	3,158
Income attributable to common stockholders	$ 336	$ 2,821

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U.S. dollars in thousands

NOTE 3 - BUSINESS COMBINATION AND INVESTMENT IN AN AFFILIATED COMPANY (CONT)

b. FAvS (cont)

A reconciliation of the share in results of FAVS for each of the years ended December 31, 2014 and 2013:

	Year ended December 31, 2014	2013
Share in income related to common stockholders	$ 49	$ 838
Share in income related to preferred stock	218	187
Net income	$ 267	$ 1,025

NOTE 4 - HELD FOR SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

On March 27, 2014 TAT consummate the agreement to sell its entire interest in Bental, the OEM of Electric Motion Systems operating segment, constituting 70% of Bental's issued and outstanding share capital, to Bental Investments Agshah Ltd. ("Bental Investments"), for an aggregate consideration of $5,000, reflecting an impairment of $3,319 (out of which $2,323 attributed to controlling interest), which is reported in Income (loss) from discontinued operations in the consolidated statement of operations for the year ended December 31, 2013. In addition the Company recorded a loss from discontinued operations of $152 for the year ended on December 31, 2013 (out of which $106 attributed to controlling interest).

The following are amounts related to Bental included in net loss from discontinued operations:

	Year ended December 31, 2013
Revenues	$ 9,589
Loss before taxes on income (tax benefit)	$ (148)
Loss from discontinued operations, net of tax ($5 and $3 in 2013 and 2012, respectively)	$ (3,471)
Loss from discontinued operations attributable to non-controlling interest	1,042
Loss from discontinued operations attributable to TAT Technologies Ltd. shareholders	$ (2,429)

U.S. dollars in thousands

NOTE 5 - FAIR VALUE MEASUREMENT

Recurring Fair Value Measurements

The Group measures fair value and discloses fair value measurements for financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's financial assets and liabilities measured at fair value on a recurring basis, consisted of the following types of instruments:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Contingent liability (see also note 12 (g))	$ -	$ -	$ 640	$ 640
Derivative financial instruments	$ -	$ 14	$ -	$ 14

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Money Market	$ 1,136	$ -	$ -	$ 1,136
Liabilities:				
Derivative financial instruments	$ -	$ 463	$ -	$ 463

U.S. dollars in thousands

NOTE 5 - FAIR VALUE MEASUREMENT (CONT)

Recurring Fair Value Measurements (cont)

a. Contingent liability:

The contingent consideration liability in the acquisition of Turbochrome shares was computed on expected revenue to be generated by the company using a binomial tree model income approach. The Company will reassess the fair value of the contingent consideration on a quarterly basis and record any applicable adjustments to earnings in the period they are determined.

The fair value of the contingent liability as of December 31, 2015 was estimated using the following assumptions:

	2015	
Volatility	16.6	%
Expected life (in years)	1.25	
Risk free interest rate	0.08	%

b. Derivative financial instruments:

The fair value calculation of the derivative financial instruments is equal to the difference between the U.S. dollar values of the derivative at the inception of the hedge and at the end of the testing period, based on translating the Israeli Shekel amount of the derivative at current forward rate for the remaining hedging period.

As of December 31, 2015, the company has open forward contracts with a notional total amount of $3,638.

As of December 31, 2014, the company has contracts with a notional total amount of $4,800.

The carrying amounts of financial instruments include cash and cash equivalents, short-term bank deposits, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their short maturities.

U.S. dollars in thousands

NOTE 6 - INVENTORY

Inventory is composed of the following:

	December 31, 2015		December 31, 2014	
Raw materials and components	$	9,823	$	11,333
Work in progress		19,798		14,673
Spare parts		6,340		8,956
Finished goods		703		515
	$	36,664	$	35,477

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT, NET

Composition of assets, grouped by major classifications, is as follows:

	December 31, 2015		December 31, 2014	
Cost:				
Land and buildings	$	11,112	$	6,232
Machinery and equipment		41,378		36,299
Motor vehicles		334		334
Office furniture and equipment		1,789		1,646
Software		1,259		1,197
		55,872		45,708
Less: Accumulated depreciation		36,938		34,184
Depreciated cost	$	18,934	$	11,524

Depreciation expenses amounted to $2,753, $2,069 and $1,859 for the years ended December 31, 2015, 2014 and 2013, respectively.

U.S. dollars in thousands

NOTE 8 - INTANGIBLE ASSETS

Intangible assets:

	December 31, 2015	December 31, 2014
Customer relationships		
Cost	$ 1,342	$ -
Accumulated amortization	(28)	-
Amortized cost	$ 1,314	$ -

NOTE 9 - OTHER BALANCE SHEETS SUPPLEMENTAL INFORMATION

Accrued expenses:

	December 31, 2015	December 31, 2014
Employees and payroll accruals	$ 2,657	$ 2,149
Accrued expenses	1,081	543
Authorities	952	428
Advances from customers	1,295	741
Deferred income	240	117
Warranty provision	324	251
Contingent consideration	500	-
Accrued royalties	752	368
Hedge instruments	14	463
	$ 7,815	$ 5,060

TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 10 - TRANSACTIONS WITH RELATED PARTIES

a. Transactions with related parties:

	Year ended December 31, 2015	2014	2013
Compensation and benefits to senior management, including benefit component of option grants	1,236	1,213	1,237
Number of individuals to which this benefit related	5	5	5
Compensation and benefits to the chairman of the Board	173	188	112
Number of individuals to which this benefit related	1	1	1
Compensation and benefits to directors	161	131	169
Number of individuals to which this benefit related	5	5	5

b. Transactions with TAT Industries LTD. (“TAT Industries”):

	Year ended December 31, 2015	2014	2013
Management fees (1)	-	-	29
Lease expenses (2)	$ -	$ -	$ 424

(1) According to the agreement between TAT and TAT Industries, TAT Industries will pay the Company an annual management fee in the amount of $50. The management fees are recorded as a reduction of general and administration expenses. Such services provided to TAT Industries until the purchase of TAT’s shares by an outside investor on August 7, 2013.

(2) During 2000, TAT entered into a lease agreement with TAT Industries. As of August 7, 2013, following the sale of TAT’s shares to an outside investor, TAT Industries is no longer considered a related party.

NOTE 11 - LONG-TERM EMPLOYEE-RELATED OBLIGATIONS

Severance pay:

TAT’s liability for severance pay, for their Israeli employees, is calculated pursuant to Israeli Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. The liability is presented on the undiscounted basis. The Israeli company records an expense for the net increase in its severance liability.

TAT and Turbochrome liability for all of its Israeli employees is fully covered for by monthly deposits with severance pay funds, insurance policies, Mivtahim Social Insurance Institution Ltd. ("Mivtahim"). The liability covered by deposits with Mivtahim is irrevocably transferred to Mivtahim. Accordingly, neither the amounts accumulated with Mivtahim, nor the corresponding liabilities for severance pay are reflected in the consolidated balance sheet.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrender value of these policies and includes profits (or loss) accumulated through the balance sheet date.

The Israeli companies are required to make severance payment upon dismissal of an employee or upon termination of employment in certain circumstances. The severance payment liability to the employees is recorded on the Company's balance sheets under “Employee rights upon retirement.” The liability is recorded as if it were payable at each balance sheet date on an undiscounted basis.

In case an employee did not agree to ‘Section 14’ of the Israeli Severance Pay lows, the liability is funded in part from the purchase of insurance policies or by the establishment of pension funds with dedicated deposits in the funds. The amounts used to fund these liabilities are included in the balance sheets under “Funds in respect of employee rights upon retirement”. These policies are the Company's assets. However, under employment agreements and subject to certain limitations, any policy may be transferred to the ownership of the individual employee for whose benefit the funds were deposited.

According to Section 14 of the Israeli Severance Pay Law, the Israeli companies liability for certain employees, according to their employment agreements, make regular deposits with certain insurance companies for accounts controlled by each applicable employee in order to secure the employee’s rights upon retirement. The Israeli companies are fully relieved from any severance pay liability with respect to each such employee after they make the payments on behalf of the employee. The liability accrued in respect of these employees and the amounts funded, as of the respective agreement dates, are not reflected in the Israeli Company balance sheets, as the amounts funded are not under the control and management of the Israeli company and the pension or severance pay risks have been irrevocably transferred to the applicable insurance companies (the “Contribution Plans”).

U.S. dollars in thousands

NOTE 11 - LONG-TERM EMPLOYEE-RELATED OBLIGATIONS (CONT)

With regard to the employees without a Contribution Plan, liability is funded in part from the purchase of insurance policies or by the establishment of pension funds with dedicated deposits in the funds. The amounts used to fund these liabilities are included in the balance sheets under “Funds in respect of employee rights upon retirement” These policies are the Company's assets. In the years ended December 31, 2015 and 2014, the Company deposited $389 and $381, respectively, with pension funds and insurance companies in connection with its severance payment obligations.

The amounts of severance payment expenses for the Israeli companies were $554 and $555 for the years ended December 31, 2015 and 2014, respectively, of which $165 and $174 in the years ended December, 2015 and 2014, respectively, were in respect of the Contribution Plan and funded accordingly.

Limco-Piedmont sponsors a 401(K) safe harbor profit sharing plan covering substantially all of its employees. The plan requires the employer to contribute a match which is currently done on a payroll period basis, matching 100% of the first 2% and 50% of the next three percent. In addition, the plan allows for a discretionary qualified non-elective contribution for the plan year. Contributions to the plan by Limco-Piedmont were $261, $251 and $253 for the years ended December 31, 2015, 2014 and 2013, respectively.

The Group expects to contribute approximately $800 in 2016 to the pension funds and insurance companies in respect of their severance and pension pay obligations.

The amounts of severance payments, actually paid to retired employees, by TAT were $166, $568 and $226 for the years ended December 31, 2015, 2014 and 2013.

TAT expects to pay $1,772 in future benefits to their employees during 2016 through 2025 upon their normal retirement age. The amount was determined based on the employee’s current salary rates and the number of service years that will be accumulated upon the retirement date. These amounts do not include amounts that might be paid to employees that will cease working for the Israeli company before their normal retirement age.

Year		Amount
2016	$	278
2017		45
2018		143
2019		367
2020		53
Thereafter (through 2025)		886
	$	1,772

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

a. Commissions arrangements:

The Group is committed to pay marketing commissions to sale agents at an average rate of 6% of total sales contracts. Commission expenses were $678, $701 and $781 for the years ended December 31, 2015, 2014 and 2013, respectively. The commissions were recorded as part of the selling and marketing expenses.

b. Royalty commitments:

(1) TAT is committed to pay royalties to third parties through 2015, ranging from 12% to 17% of sales of products developed by the third parties. Royalty expenses were $273, $270and $177 for the years ended December 31, 2015, 2014 and 2013, respectively. The royalties were recorded as part of the cost of revenues.

(2) Limco-Piedmont is committed to pay royalties to a third party, ranging between 3% to 5% of sales of products purchased from the third party, after deducting related costs incurred by Limco-Piedmont. That third party is the exclusive manufacturer of the products for which Limco-Piedmont provides MRO services. In addition, Limco-Piedmont is committed to pay said third party royalties, ranging 1.5% to 10% of sales of additional products exclusively manufactured by the third party. In addition, Limco-Piedmont is committed to pay said third party royalties, ranging from 10% to 20%, on parts reclaimed to use in MRO services or sold to our customers when they are manufactured by the third party. Royalty expenses were $1,248, $680 and $400 for the years ended December 31, 2015, 2014 and 2013, respectively. The royalties were recorded as part of the cost of revenues.

c. Lease commitments:

Limco-Piedmont leases some of its operating and office facilities for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2025. Certain leases contain renewal options as defined in the agreements. Lease expense (excluding related parties) totaled $419, $271 and $215 for the years ended December 31, 2015, 2014, and 2013 respectively.

TAT leases its factory from TAT Industries until 2020. Lease expense totaled $667, $427 and $424 for the years ended December 31, 2015, 2014, and 2013 respectively.

U.S. dollars in thousands

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT)

c. Lease commitments (cont):

As of December 31, 2015, future minimum rental payments under non-cancelable operating leases are as follows:

Year		Amount
2016	$	1,170
2017		1,085
2018		1,022
2019		1,036
2020		1,069
Total	$	5,382

d. Legal claims contingencies:

(1) On November 29, 2011, a factoring company ("the plaintiff"), filed a claim with the magistrates court in Tel-Aviv against the Company and eleven others ("the respondents"), jointly and severally, for the amount of 6,151 NIS thousand (approximately $1,620). The plaintiff's case against the Company is based on invoices that were presented to the plaintiff by supplier of the Company (“the supplier”), by virtue of assignment of rights, which were originally issued to the Company by the supplier for certain alleged services. On February 5, 2012, the Company filed for its statement of defense, in which it denied the plaintiff's claims and clarified that it acted according to the deed of assignment of rights, and that the invoices neither represent nor reflect real transactions and/or real services which were rendered. The plaintiff and the Company have reached a settlement agreement pursuant to which the court proceedings against the Company would be terminated. The court confirmed such settlement agreement on March 9, 2015.

e. Guarantees:

(1) In order to secure TAT's liability to the Israeli customs, the Company provided a bank guarantee in the amount of $214. The guarantee is linked to the consumer price index and is valid until December 2016.
(2) In order to secure the TAT's liability to the lessor of its premises, the Company provided a bank guarantee in the amount of $658. The guarantee is linked to the consumer price index in Israel and is valid until July 2016.
(3) In order to secure Turbochrome liability to the Israeli customs, the Company provided a bank guarantee in the amount of $256. The guarantee is linked to the consumer price index in Israel and is valid until December 2016.

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT)

f. Vehicle Lease

The Company entered into several three-year leases for vehicles. The current monthly lease fees aggregate approximately $35. The expected lease payments for the years ending December 31, 2016, 2017 and 2018 are approximately $323, $206 and $55, respectively.

g. Contingent consideration

On October 19, 2015, the company acquired 100% of Turbochrome Ltd. shares for approximately US$ 3.5 million (subject to certain price adjustments). The acquisition was funded through cash on hand and an earn-out payment (up to $2 million). The earn-out Payment is based on the actual revenues of Turbochrome during the calendar years 2015 and 2016. The contingent consideration liability was computed on expected revenue to be generated by the acquired company using a binomial tree model income approach. The Company will reassess the fair value of the contingent consideration on a quarterly basis and record any applicable adjustments to earnings in the period they are determined. The adjustments will be classified as other income. As of December 31, 2015, the fair value of the contingent considerations was $640 ($500 in accrued expenses and $140 in other long-term liabilities). According to the results of Turbochrome for the year 2015, Turbochrome met the revenue target for 2015 and, subject to the terms of the share purchase agreement, TAT will be obligated to pay to Chromalloy American LLC (the previous shareholder of Turbochrome), $500 as an earn out payment with respect to fiscal year 2015 revenues.

NOTE 13 - SHAREHOLDERS' EQUITY

a. TAT's Ordinary shares confer upon their holders voting rights, the right to receive dividends, if declared, and any amounts payable upon the dissolution, liquidation or winding up of the affairs of TAT.

b. Stock option plans:

(1) Following the approval of TAT's Audit committee and Board of Directors, on June 28, 2012, the Company's shareholders approved the 2012 stock option plan (the "2012 Plan") to grant up to 380,000 options to purchase Ordinary shares, 0.9 NIS par value, of the Company to senior executives and certain members of the Board of Directors, at an exercise price as determined in the stock option plan. The Options vest over a three-year period (one-third each year), the vesting of 50% of the Options is subject, in addition, to certain minimum shareholders' equity during a period of 4 years from the grant date, unless the employee is no longer employed by the Company, in which case the options will be considered forfeited within 30 days. The grant of options to Israeli employees under the Plan is subject to the terms stipulated by Sections 102 and 102A of the Israeli Income Tax Ordinance. Each option grant is subject to the track chosen by the Company, either Section 102 or Section 102A of the Israeli Income Tax Ordinance, and pursuant to the terms thereof, the Company is not allowed to claim as an expense for tax purposes the amounts credited to employees as benefits, including amounts recorded as salary benefits in the Company's accounts, in respect of options granted to employees under the Plan, with the exception of the work income benefit component, if any, determined on grant date. For nonemployees and for non-Israeli employees, the share option plan is subject to Section 3(i) of the Israeli Income Tax Ordinance.

(1) On March 19, 2014, pursuant to the 2012 Plan, TAT's Board of Directors approved the grant of 195,000 Options, at an exercise price of $8.79 per share, to senior executives, which were granted on June 23, 2014 (which is also considered the grant date).

(2) On November 30, 2014, pursuant to the 2012 Plan, TAT's Board of Directors approved the grant of 20,000 Options, at an exercise price of $7.34 per share, to senior executives.

(3) On July 1, 2015, pursuant to the 2012 Plan, TAT's Board of Directors approved the grant of 80,000 Options, at an exercise price of $7.15 per share, to senior executives.

(4) On October 1, 2015, pursuant to the 2012 Plan, TAT's Board of Directors approved the grant of 40,000 Options, at an exercise price of $7.15 per share, to senior executives.

NOTE 13 - SHAREHOLDERS' EQUITY (CONT)

b. Stock option plans (cont.):

The fair value of the Company's stock options granted under the 2012 plan for the years ended December 31, 2015 and 2014 was estimated using the following assumptions:

	2015		2014	
Expected stock price volatility	35.07% - 38.97	%	37.23% - 39.14	%
Expected option life (in years)	3 - 4		2.87 - 4	
Risk free interest rate	0.92% - 1.39	%	0.48% - 1.34	%
Dividend yield	5	%	5% - 4.6	%

The Company uses the Black-Scholes option pricing model to determine the weighted average fair value of options. The volatility factor used in the Black-Scholes option pricing model is based on historical stock price fluctuations. The expected term of options is based on the simplified method. The Company is able to use the simplified method as the options qualify as "plain vanilla" options as defined by ASC 718-10-S99 and since the Company does not have sufficient historical exercise data to provide a reasonable basis to estimate expected term. Expected dividend yield is based upon historical and projected dividend activity and the risk-free interest rate assumption is based on observed interest rates appropriate for the expected term of the stock options granted.

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U.S. dollars in thousands

NOTE 13 - SHAREHOLDERS' EQUITY (CONT)

b. Stock option plans (cont):

(5) The following table is a summary of the activity of TAT's Stock Option plan:

	Year ended December 31, 2015		Year ended December 31, 2014		Year ended December 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	235,000	8.28	145,000	$ 6.5	285,000	$ 6.50
Granted	120,000	7.15	215,000	8.66	-	-
Forfeited	(77,500)	8.67	(40,000)	8.79	(133,334)	6.50
Exercised	-	-	(85,000)	6.5	(6,666)	6.50
Outstanding at the end of the year	277,500	7.6	235,000	8.28	145,000	$ 6.50
Exercisable options	30,000	6.5	20,000	$ 6.5	24,167	$ 6.50

The weighted-average grant-date fair value of options granted in 2015 was $1.25 and $1.13 in 2014. The aggregate intrinsic value for the options outstanding as of December 31, 2015, 2014 and 2013 was $27, $0 and $212, respectively.

As of December 31, 2015 total unrecognized compensation cost was $67 and is expected to be recognized over a weighted-average period of 1.41 years.

c. Dividends

On March 19, 2014, TAT’s Board declared a cash dividend in the total amount of $2 million (approximately NIS 6.9 million), or $0.22 per share (approximately NIS 0.76 per share), for all of the shareholders of TAT. The dividend was paid on May 7, 2014 to shareholders of record on April 21, 2014.

U.S. dollars in thousands

NOTE 14 - EARNINGS (LOSS) PER SHARE (“EPS”)

Basic and diluted earnings (loss) per share are based on the weighted average number of ordinary shares outstanding. Diluted EPS is based on those shares used in basic EPS plus shares that would have been outstanding assuming issuance of ordinary shares for all dilutive potential ordinary shares outstanding.

	Year ended December 31,		
	2015	2014	2013
Numerator for EPS:			
Net income from continuing operations	$ 5,849	$ 1,432	$ 5,231
Net loss from discontinued operations, net of tax	-	-	(2,429)
Denominator for EPS:			
Weighted average shares outstanding – basic	8,808,344	8,805,495	8,799,237
Dilutive shares	2,345	21,047	9,683
Weighted average shares outstanding – diluted	8,810,689	8,826,542	8,808,920
EPS attributable to controlling interest:			
Basic and diluted			
Net income from continuing operations	$ 0.66	$ 0.16	$ 0.60
Loss from discontinued operations	$ -	$ -	$ (0.28)

Diluted income per share does not include 295,000, 175,000 and 0 options, for the years ended December 31, 2015, 2014 and 2013 respectively because the options are anti-dilutive.

Dilutive shares are calculated using the treasury stock method and include dilutive shares from share-based employee compensation plans.

NOTE 15 - TAXES ON INCOME

a. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the Law"):

Until December 31,2010, TAT and Turbochrome has elected to participate in the alternative package of tax benefits for its approved and benefited enterprise under the law.

Pursuant to such Law, the income derived from those enterprises will be exempt from Israeli corporate tax for a specified benefit period (except to the extent that dividends are distributed during the tax-exemption period other than upon liquidation) and subject to reduced corporate tax rates for an additional period.

In the event of distribution of a dividend from income which was tax exempt as above, the company would have to pay corporate taxes at the rate of 25% tax in respect of the amount distributed. As of December 31, 2015, the company had accumulated a total amount of approximately $1,723 of exempt income which will be charged for $431 of the corporate tax if will be distributed as dividend.

Preferred Enterprises

Additional amendments to the Law became effective in January 2011 (the “2011 Amendment”). Under the 2011 Amendment, income derived by ‘Preferred Companies’ from ‘Preferred Enterprises’ (both as defined in the 2011 Amendment) would be subject to a uniform rate of corporate tax as opposed to the current incentives that are limited to income from Approved or Benefiting Enterprises during their benefits period. According to the 2011 Amendment, the uniform tax rate on such income, referred to as ‘Preferred Income’, would be 10% in areas in Israel that are designated as Development Zone A and 15% elsewhere in Israel during 2011-2012, 7% and 12.5%, respectively, in 2013-2014, and 6% and 12%, respectively, thereafter. As with dividends distributed from taxable income derived from an Approved or Benefited Enterprises during the applicable benefits period, dividends distributed from Preferred Income would be subject to a 15% tax (or lower, if so provided under an applicable tax treaty), which would generally be withheld by the distributing company. While the Company may incur additional tax liability in the event of distribution of dividends from tax exempt income generated from its Approved and Benefiting Enterprises, no additional tax liability will be incurred by the Company in the event of distribution of dividends from income taxed in accordance with the 2011 Amendment.

Under the transitional provisions of the 2011 Amendment, the Company elected to irrevocably implement the 2011 Amendment, commencing 2011 and thereafter, and be regarded as a "Preferred Enterprise" with respect to its existing Approved and Benefited Enterprises while waiving benefits provided under the legislation prior to the 2011 Amendment.

U.S. dollars in thousands

NOTE 15- TAXES ON INCOME (CONT)

a. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the Law") (cont.):

Under a recent amendment, announced in August 2013, beginning in 2014, dividends paid out of income attributed to a Preferred Enterprise will be subject to a withholding tax rate of 20% (instead of 15%). In addition, tax rates under the Preferred Enterprise were also raised effective as of January 1, 2014 to 9% in Zone A and 16% elsewhere (instead of the 6% and 12%, respectively).

TAT is located in area in Israel that is designated as elsewhere and as such entitled to reduce tax rates of 15% during 2011-2012, 12.5% in 2013, and 16% in 2014 and thereafter.

Turbochrome is located in area in Israel that is designated as Zone A and as such entitled to reduce tax rates of 10% during 2011-2012, 7% in 2013, and 9% in 2014 and thereafter.

b. Corporate tax rate in Israel

The income of the Israeli companies is taxed in Israel at the regular corporate tax rates which were 25% in 2013 and 26.5% for 2014 and 2015.

In January 2016, the Law for the Amendment of the Income Tax Ordinance (No.216) was published, enacting a reduction of corporate tax rate beginning in 2016 and thereafter, from 26.5% to 25%. There is no impact on the financial statements of the Company as a result of the changes in the Israeli corporate tax rate.

Capital gain is subject to capital gain tax according to corporate tax rate in the year which the assets are sold.

c. U.S. subsidiaries

U.S. subsidiaries are taxed based on federal and state tax laws. The statutory tax rate for 2015, 2014, and 2013 was 38%.

d. Tax assessments

TAT's income tax assessments are considered final through 2011.
Turbochrome income tax assessments are considered final through 2013.
Limco-Piedmont income tax assessments are considered final through 2011.
TAT-GAL which was incorporated in 2008 has not received final tax assessment yet.

TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 15 - TAXES ON INCOME (CONT)

e. Income tax reconciliation:

A reconciliation of the theoretical tax expense assuming all income is taxed at the statutory rate to taxes on income (tax benefit) as reported in the statements of income:

	Year ended December 31, 2015	2014	2013
Income before taxes on income as reported in the statements of income	$ 5,256	$ 2,525	$ 5,247
Statutory tax rate in Israel	26.5 %	26.5 %	25 %
Theoretical taxes on income	$ 1,393	$ 669	$ 1,312
Increase (decrease) in taxes on income resulting from:			
Tax adjustment for foreign subsidiaries subject to a different tax rate	224	457	453
Reduced tax rate on income derived from "Preferred Enterprises" plans	146	156	(255)
Change in enacted tax rates	-	-	34
Exempt income (Bargain purchase)	(1,281)	-	-
Valuation allowance	(75)	(100)	294
Tax in respect of prior years	(12)	(44)	(342)
Permanent differences	249	222	(455)
Taxes on income as reported in the statements of income	$ 644	$ 1,360	$ 1,041

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

	Year ended December 31, 2015	2014	2013
Domestic (Israel)	$ 3,840	$ (1,659)	$ 1,942
Foreign (United States)	1,416	4,184	3,305
	$ 5,256	$ 2,525	$ 5,247

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U.S. dollars in thousands

NOTE 15 - TAXES ON INCOME (CONT)

g. Taxes on income (tax benefit) included in the statements of income:

	Year ended December 31, 2015	2014	2013
Current:			
Domestic (Israel)	$ 225	$ (94)	$ 160
Foreign (United States)	452	237	334
	677	143	494
Deferred:			
Domestic (Israel)	(170)	(36)	15
Foreign (United States)	149	1,297	874
	(21)	1,261	889
Previous years:			
Domestic (Israel)	-	-	(209)
Foreign (United States)	(12)	(44)	(133)
	(12)	(44)	(342)
	$ 644	$ 1,360	$ 1,041

U.S. dollars in thousands

NOTE 15 - TAXES ON INCOME (CONT)

h. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of TAT's deferred tax liabilities and assets are as follows:

	December 31, 2015	2014
Deferred tax assets (liabilities):		
Provision for doubtful accounts	$ 100	$ 47
Unrealized gains	140	174
Provisions for employee benefits	300	259
Inventory	1,114	957
Goodwill and intangible assets	462	533
Property, plant and equipment		21
Provisions for employee benefits and other temporary differences	36	26
Tax credits carryforward	693	558
Capital and state tax losses carryforward	3,449	3,574
Net operating losses carryforward	553	373
Other	204	296
Deferred tax assets, before valuation allowance	$ 7,051	6,818
Valuation allowance	(3,449)	(3,574)
Deferred tax assets, net	$ 3,602	$ 3,244
Property, plant and equipment and intangible assets	(2,473)	(1,735)
Other temporary differences deferred tax liabilities	(501)	(630)
Deferred tax liabilities	$ (2,974)	$ (2,365)
Net	628	879

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U.S. dollars in thousands

NOTE 15 - TAXES ON INCOME (CONT)

h. Deferred income taxes (cont.):

The following table summarizes the changes in the valuation allowance for deferred tax assets:

Balance, December 31, 2012	1,823
Addition charged to expenses	1,483
Balance, December 31,2013	3,306
Addition charged to expenses	268
Balance, December 31,2014	3,574
Deductions charged to expenses	(125)
Balance, December 31,2015	$3,449

TAT does not intend to distribute earnings of a foreign subsidiary aggregating up to approximately $17,601 (tax earnings and profits) as of December 31, 2015, and accordingly, no deferred tax liability has been established relative to these earnings. If such profits and earnings are distributed by cash dividend, it would be taxed at tax rate applicable to such distribution (12.5%) and an income tax liability of up to approximately $2,200 would be incurred as of December 31, 2015.

TAT does not intend to distribute tax-exempt earnings deriving from its Approved Enterprise aggregating approximately $1,723 as of December 31, 2015, and accordingly, no deferred tax liability has been established related to these earnings. If such tax-exempt income is distributed, it would be taxed at the reduced corporate tax rate applicable to such profits (25%) and an income tax liability of up to approximately $431 would be incurred as of December 31, 2015.

NOTE 16 - SEGMENT INFORMATION

a. Segment Activities Disclosure:

TAT operates under four segments: (i) Original Equipment Manufacturing or “OEM” of Heat Transfer Solutions and Aviation Components (ii) Heat Transfer Services and Products and (iii) Maintenance, Repair and Overhaul or “MRO” services for Aviation Components in the area of landing gears and APUs (iv) overhaul and coating of jet engine components.

- OEM of Heat Transfer Solutions and Aviation Components primarily includes the design, development, manufacture and sale of (i) 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; (ii) environmental control and cooling systems on board aircraft and for ground applications; and (iii) a variety of other electronic and mechanical aircraft accessories and systems such as pumps, valves, power systems and turbines.

- Heat Transfer Services and Products primarily include the maintenance, repair and overhaul of heat transfer equipment and in a lesser extent, the manufacturing of certain heat transfer products. TAT’s Limco subsidiary operates an FAA certified repair station, which provides heat transfer MRO services and products for airlines, air cargo carriers, maintenance service centers and the military.

- MRO services for Aviation Components primarily include the maintenance, repair and overhaul of APUs, landing gear and other aircraft components. TAT’s Piedmont subsidiary operates an FAA certified repair station, which provides aircraft component MRO services for airlines, air cargo carriers, maintenance service centers and the military.

- TAT’s activities in the area of jet engine overhaul includes the overhaul and coating of jet engine components, including turbine vanes and blades, fan blades, variable inlet guide vanes, afterburner flaps and other components (see note 3) . This operating segment started operating in 2015 with the Turbochrom acquisition. See note 3.

The Group’s chief operating decision-maker (CEO of the Company) evaluates performance, makes operating decisions and allocates resources based on financial data consistent with the presentation in the accompanying financial statements.

TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 16 - SEGMENT INFORMATION (CONT)

b. Segments statement operations disclosure:

The following financial information is the information that management uses for analyzing the segment results. The figures are presented in consolidated method as presented to management.

The following financial information is a summary of the operating income of each operational segment:

	Year ended December 31, 2015						
	OEM of Heat Transfer Solutions and Aviation Components	Heat Transfer Services and Products	MRO services for Aviation Components	Overhaul and coating of jet engine components	Other	Elimination of inter-company sales	Consolidated
Revenues							
Sale of products and services	$ 23,511	$ 30,526	$ 29,665	$ 1,905		$ -	$ 85,607
Intersegment revenues	3,840	475	-	-		(4,315)	-
Total revenues	27,351	31,001	29,665	1,905		(4,315)	85,607
Cost of revenues	23,887	22,541	28,474	1,485		(4,445)	71,942
Gross profit	3,464	8,460	1,191	420		130	13,665
Research and development	619	264		7			890
Selling and marketing	1,270	961	608	64			2,903
General and administrative	1,880	3,000	3,303	286			8,469
Other expenses					631		631
Gain on bargain purchase					(4,833)		(4,833)
Operating income (loss)	(305)	4,235	(2,720)	63	(4,202)	130	5,605

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U.S. dollars in thousands

NOTE 16 - SEGMENT INFORMATION (CONT)

b. Segments statement operations disclosure (cont)

	Year ended December 31, 2014				
	OEM of Heat Transfer Solutions and Aviation Components	Heat Transfer Services and Products	MRO services for Aviation Components	Elimination of inter-company sales	Consolidated
Revenues					
Sale of products and services	$ 22,871	$ 30,121	$ 27,734	$ -	$ 80,726
Intersegment revenues	5,314	229	-	(5,543)	-
Total revenues	28,185	30,350	27,734	(5,543)	80,726
Cost of revenues	23,249	23,101	23,502	(5,330)	64,522
Gross profit	4,936	7,249	4,232	(213)	16,204
Research and development	841	229	-	-	1,070
Selling and marketing	1,538	1,058	607	-	3,203
General and administrative	2,717	2,417	2,989	-	8,123
Other income	(11)	-	-	-	(11)
Operating income (loss)	(149)	3,545	636	(213)	3,819

U.S. dollars in thousands

NOTE 16 - SEGMENT INFORMATION (CONT)

b. Segments statement operations disclosure (cont)

	Year ended December 31, 2013				
	OEM of Heat Transfer Solutions and Aviation Componentse	Heat Transfer Services and Products	MRO services for Aviation Components	Elimination of inter-company sales	Consolidated
Revenues					
Sale of products and services	$ 27,326	$ 29,796	$ 22,429	$ -	$ 79,551
Intersegment revenues	3,812	111	-	(3,923)	-
Total revenues	31,138	29,907	22,429	(3,923)	79,551
Cost of revenues	24,141	22,464	19,224	(4,086)	61,743
Gross profit	6,997	7,443	3,205	163	17,808
Research and development	415	298	-	-	713
Selling and marketing	1,520	1,145	485	-	3,150
General and administrative	3,158	2,249	3,261	-	8,668
Other income	(20)	-	-	-	(20)
Operating income (loss)	1,924	3,751	(541)	163	5,297

TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 16 - SEGMENT INFORMATION (CONT)

c. The following financial information identifies the assets, depreciation and amortization, and capital expenditures to segments:

	Year ended December 31, 2015					
	OEM of Heat Transfer Solutions and Aviation Components	Heat Transfer Services and Products	MRO services for Aviation Components	Overhaul and coating of jet engine components	Amounts not allocated to segments	Consolidated
Total assets	29,440	28,400	24,170	11,635	15,938	109,583
Depreciation and amortization	1,127	789	669	196		2,781
Expenditure for segment assets	1,075	1,400	821	51		3,347

	Year ended December 31, 2014				
	OEM of Heat Transfer Solutions and Aviation Components	Heat Transfer Services and Products	MRO services for Aviation Components	Amounts not allocated to segments	Consolidated
Total assets	$ 32,808	$ 26,889	$ 23,044	$ 16,435	$ 99,176
Depreciation and amortization	1,027	675	367	-	2,069
Expenditure for segment assets	1,126	810	539	-	2,475

	Year ended December 31, 2013				
	OEM of Heat Transfer Solutions and Aviation Components	Heat Transfer Services and Products	MRO services for Aviation Components	Amounts not allocated to segments	Consolidated

Depreciation and amortization (*)	991	603	265	-	1,859
Expenditure for segment assets (*)	1,032	664	1,134	-	2,830

(*) Excluding discontinued operations for the year ended on December 31, 2013.

TAT TECHNOLOGIES LTD. AND ITS SUBSIDIARIES

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U.S. dollars in thousands

NOTE 17 - ENTITY-WIDE DISCLOSURE

a. Total revenues - by geographical location were as follows:

	Year ended December 31,		
	2015 Total revenues	2014 Total revenues	2013 Total revenues (*)
Sale of products			
Israel	$ 4,102	$ 4,807	$ 6,248
United states	20,013	18,886	18,016
France	3,720	3,642	5,482
Rest of Europe	1,776	2,257	2,292
Other	1,728	1,771	2,326
	$ 31,339	$ 31,363	$ 34,364

	Year ended December 31,		
	2015 Total revenues	2014 Total revenues	2013 Total revenues (*)
Sale of Services			
Israel	$ 814	$ 834	$ 612
United states	32,738	31,267	27,639
Netherland	1,271	1,734	1,553
Rest of Europe	11,569	8,786	7,658
Other	7,876	6,742	7,725
	$ 54,268	$ 49,363	$ 45,187

(*) Excluding discontinued operations for the year ended on December 31, 2013.

b. Total long-lived assets - by geographical location were as follows:

	December 31,	
	2015	2014
Israel	$ 12,481	$ 5,830
United states	6,453	5,694
Total	$ 18,934	$ 11,524

c. Major Customers

No single customer accounted for 10% or more of Group's total net revenue in any year presented.

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U.S. dollars in thousands

NOTE 18 - SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS INFORMATION

	Warranty provision	Provision for doubtful Accounts
Balance, as of December 31, 2012	276	376
Additions	186	17
Deductions	(190)	(270)
Less: Held for sale	(43)	-
Balance, as of December 31, 2013	229	123
Additions	286	107
Deductions	(264)	(105)
Balance, as of December 31, 2014	$ 251	125
Additions	294	206
Deductions	(221)	-
Balance, as of December 31, 2015	$ 324	$ 331

NOTE 19 - REVISION

During 2015, the Company identified an error related to the classification of US employees' social benefits expenses and the balance classification of deferred tax asset and liabilities. Previously, the Company classified these expenses in ‘general and administrative expenses’ instead of classifying a part of them in ‘Cost of goods’ (product and services) for employees allocated to this line item. This change in classification also impacted the capitalization of inventory balances. The change in deferred taxes was to properly adjust deferred tax assets and liabilities on a jurisdictional basis. There was no material impact on the statement of cash flows.

The revision impacts two segments, Heat Transfer Services and Products and OEM of Heat Transfer Solutions and Aviation Components.

The Company assessed the materiality of this error in accordance with the SEC’s Staff Accounting Bulletin 99 and Accounting Standards Codification Topic 250, Accounting Changes and Error Corrections, and concluded that the previously issued financial statements were not materially misstated. In accordance with the SEC’s Staff Accounting Bulletin, the Company corrected these errors by revising the affected financial statements in the current 2015 financial statements.

U.S. dollars in thousands

NOTE 19 - REVISION (CONT)

Following is the effect of the revision on the Company's previously reported results:

Statements of income:

	Year ended December 31, 2014		
	As reported previously	Adjustment	As revised
Cost of goods:			
Products	23,340	276	23,616
Services	40,286	620	40,906
Gross profit	17,100	(896)	16,204
General and administrative	9,019	(896)	8,123
Operating income	3,819	*	3,819
Net income	1,432	*	1,432
Net income per share	0.16	*	0.16

*Represents an amount less than $1.

	Year ended December 31, 2013		
	As reported previously	Adjustment	As revised
Cost of goods:			
Products	24,892	251	25,143
Services	35,987	613	36,600
Gross profit	18,672	(864)	17,808
General and administrative	9,512	(844)	8,668
Operating income	5,317	(20)	5,297
Net income	2,822	(20)	2,802
Net income per share	0.32	*	0.32

*Represents an amount less than $1.

U.S. dollars in thousands

NOTE 19 - REVISION (CONT)

Following is the effect of the revision on the Company’s previously reported results (cont.):

Balance sheets and shareholders' capital

As of December 31, 2014:

	As reported Previously	Adjustment	As revised	Impact of adoption*	As presented
Inventories, net	35,404	73	35,477	-	35,477
Total current assets	83,342	(518)	82,824	(1,103)	81,721
Total assets	101,468	(2,068)	99,400	(224)	99,176
Total current liabilities	11,537	(591)	10,946	-	10,946
Total long-term liabilities	4,463	(1,550)	2,913	(224)	2,689
Total liabilities	16,000	(2,141)	13,859	(224)	13,635
Retained earnings	20,272	73	20,345	-	20,345
Total equity	85,468	73	85,541	-	85,541

* See note 2 (dd)

NOTE 20 - SUBSEQUENT EVENTS

1. On February 25, 2016, Republic Airways Holdings Inc. ("Republic"), Piedmont’s Costumer, announced that it and certain of its subsidiaries have filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. As of December 31, 2015 there were outstanding receivables from Republic of approximately $1,087. As of April 11, 2016 there are outstanding receivables from Republic, related to the balance as of December 31, 2015, of approximately $306. The Company is currently assessing the implications of Republic's voluntary petition for bankruptcy on the maintenance support agreement with Republic.

2. On March 29, 2016, subsequent to the balance sheet date, TAT’s board of directors approved the grant of 40,000 options, at an exercise price of $7.63 per share, to senior executives.