ROBOGROUP TEK LTD
Form 20-F
June 30, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 20-F

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

Or

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

For the fiscal year ended December 31, 2004

Or

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

For the transition period from to

Commission file number: 0-19435

ROBOGROUP T.E.K. LTD.

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

Israel

(Jurisdiction of incorporation or organization)

13 Hamelacha Street, Afek
Industrial Park, Rosh Ha Ayin, 48091, Israel
(Address of principal executive offices)

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

Title of Each Class	Name of Each Exchange on Which Registered
None	N/A

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

Ordinary Shares, NIS 0.5 Par Value
(Title of Class)

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

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

Ordinary Shares, par value NIS 0.5 per share
as of December 31, 2004 11,238,952

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

Yes x No o

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 x Item 18 o

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The statements contained in this annual report that are not purely historical are forward-looking statements. Such forward-looking statements also include statements in Item 4 Information on the Company and Item 5 Operating and Financial Review and Prospects. These statements involve risks and uncertainties and actual results could differ materially from such results discussed in these statements as a result of the risk factors set forth in this annual report. All forward-looking statements included in this annual report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated financial data for the three years ended December 31, 2004 and at December 31, 2003 and 2002 are derived from our consolidated financial statements set forth elsewhere in this annual report, which have been prepared in accordance with Israeli GAAP and United States GAAP and audited by Chaikin, Cohen, Rubin and Gilboa, independent certified public accountants in Israel, whose report with respect to these financial statements appears in this annual report. The selected consolidated financial data for the years ended December 31, 2000 and 2001 and as of December 31, 2000 and 2001 are derived from our other audited financial statements, not appearing in this annual report, which have also been prepared in accordance with accounting principles generally accepted in Israel and the United States and examined by Chaikin, Cohen, Rubin and Gilboa.

The translation of New Israel Shekel, or NIS, amounts into U.S. dollars has been made solely for the convenience of the reader at the representative rate of exchange at December 31, 2004 (NIS 4.308 = $1.00).

Consolidated Statements of Income

	Year Ended December 31,					Convenience Translation into U.S.$
	2000	2001	2002	2003	2004	2004
	Adjusted Amounts (NIS in thousands, except per share data)				Reported Amounts (NIS in thousands, except per share data)	
Revenues	66,671	85,941	86,159	56,116	61,734	14,330
Cost of revenues	37,866	51,293	41,412	32,598	35,843	8,320
Gross profit	28,805	34,648	44,747	23,518	25,891	6,010
Operating expenses						
Research and development expenses, net	7,019	12,338	12,755	12,651	7,619	1,769
Marketing and selling expenses	10,659	15,831	14,240	12,622	13,204	3,065
General and administrative expenses	10,194	12,601	13,630	14,569	10,042	2,331
	27,872	40,770	40,625	39,842	30,865	7,165
Operating income (loss)	933	(6,122)	4,122	(16,324)	(4,974)	(1,155)
Financial income (expenses), net	1,454	1,925	(1,402)	(3,783)	(2,111)	(490)
Other income (expenses), net	1,411	2,703	1,640	2,032	809	188
Income (loss) before taxes on income	3,798	(1,494)	4,360	(18,075)	(6,276)	(1,457)
Income tax expenses (benefit)	555	888	1,051	(82)	1,411	327
Income (loss) before company s share in results of Investee companies	3,243	(2,382)	3,309	(17,993)	(7,687)	(1,784)
Company s share in losses of Investee companies	(1,015)					
Income (loss) before accumulated effect for prior years because of changes in accounting policy	2,228	(2,382)	3,309	(17,993)	(7,687)	(1,784)
Accumulated effect for prior years because of changes in accounting policy	(2,141)					
Net income (loss)	87	(2,328)	3,309	(17,993)	(7,687)	(1,784)
Basic and diluted net income (loss) per share before accumulated effect for prior years because of changes in accounting policy	0.20	(0.22)	0.31	(1.67)	(0.71)	(0.17)

Basic and diluted net income (loss) per share	0.01	(0.22)	0.31	(1.67)	(0.71)	(0.17)
Number of shares used to compute basic and diluted net income per share	10,697,631	10,727,831	10,730,831	10,744,031	10,756,814	10,756,814

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Balance Sheets Data

	At December 31,					Convenience Translation into U.S.$
	2000	2001	2002	2003	2004	2004
		Adjusted Amounts NIS (in thousands)			Reported Amounts NIS (in thousands)	
Working capital	32,478	13,927	29,234	8,310	2,389	554
Total assets	105,152	100,697	104,156	83,844	71,950	16,701
Long-term debt	27,173	10,606	21,855	17,716	17,402	4,039
Shareholders equity	46,537	45,557	48,988	30,448	23,134	5,370

Exchange Rate Information

The following table sets forth, for the periods and dates indicated, certain information regarding the Bank of Israel representative rate of exchange for U.S. dollars, expressed in NIS per one dollar. The representative rate is the average between the buying rate and the selling rate of exchange.

Such rates are provided solely for the convenience of the reader and should not be construed as a representation that NIS amounts actually represent such dollar amounts or that such NIS amounts could have been, or could be, converted into dollars at that rate or at any other rate. Such rates are not used by us in the preparation of our consolidated financial statements included elsewhere herein. See Note 2E to our consolidated financial statements included elsewhere in this annual report.

Period	Average (1)	High	Low	At Period End
Year ended December 31, 2000	NIS 4.078	NIS 4.198	NIS 3.967	NIS 4.041
Year Ended December 31, 2001	4.206	4.416	4.041	4.416
Year Ended December 31, 2002	4.738	4.994	4.416	4.737
Year Ended December 31, 2003	4.546	4.924	4.283	4.379
Year Ended December 31, 2004	4.478	4.634	4.308	4.308

(1) The average of the representative rates on the last business day of each month during the relevant period.

2005	High	Low
January	NIS 4.414	NIS 4.352
February	4.392	4.357
March	4.379	4.299
April	4.395	4.360
May	4.421	4.359

On June 17, 2005, the representative rate was NIS 4.5.000 = $1.00.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Business and Market Risks

We have a history of operating losses and we may not be able to return to profitable operations. In the year ended December 31, 2004 we recorded a net loss of approximately NIS 7.7 million ($1.8 million) and at December 31, 2004 our accumulated deficit was NIS 31.7 million ($7.3 million). No assurance can be given that we will be able to return to profitability or maintain profitable operations thereafter.

Potential fluctuations in quarterly results; uncertainty of future operating results. Our quarterly results have varied significantly in the past and are likely to vary significantly in the future, depending on a variety of factors such as the size and timing of significant orders and their fulfillment, changes in government educational budgets, demand for our products, changes in pricing policies by us or by our competitors, the number, timing and significance of product enhancements and new product announcements by us and our competitors, our ability to develop, introduce and market new and enhanced products on a timely basis, changes in the level of operating expenses, budgeting cycles of our customers, customer order deferrals in anticipation of enhancements or new products which we or our competitors offer, product life cycles, product quality problems, personnel changes, changes in our strategy, and general domestic and international economic and political conditions, among others. Our results may also be affected by currency exchange rate fluctuations and economic conditions in the geographic areas in which we operate. Due to the foregoing factors, quarterly revenues and operating results are difficult to forecast.

Revenues from sales of products developed and manufactured by us are also difficult to forecast because their sales cycle, from initial evaluation to purchase and the provision of support services, is lengthy and varies substantially from customer to customer. Product orders for shelf products are typically shipped about a month after receipt (except for CIM systems and other large-scale projects) and, consequently, order backlog at the beginning of any quarter has in the past represented only a small portion of that quarter s revenues. As a result, sales in any quarter are substantially dependent on orders booked and shipped in that quarter. Due to all of the foregoing, revenues for any future quarter are not predictable with any significant degree of accuracy. Accordingly, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

Furthermore, we have often recognized a substantial portion of our revenues in the last month of each quarter. Our expense levels are based, in significant part, on our expectations as to future revenues and are therefore relatively fixed in the short-term. If revenue levels fall below expectations, our quarterly results are likely to be disproportionately adversely affected because a proportionately smaller amount of our expenses varies with our revenues.

We are subject to risks associated with international operations and currency rate fluctuations. While our base is in Israel, part of our revenues and most of our gross margin are derived from sales outside Israel. International operations are subject to inherent risks, including the impact of possible recessionary environments in multiple foreign markets, changes in government budgeting policies, costs of localizing products for foreign markets, longer receivables collection periods and greater difficulty in accounts receivable collection, unexpected changes in regulatory requirements, difficulties and costs of staffing and managing foreign operations, reduced protection for intellectual property rights in some countries, potentially adverse tax consequences and political and economic instability. There can be no assurance that we or our distributors will be able to sustain or increase revenues from international operations or that the foregoing factors will not have a material adverse effect on our future revenues and, consequently, our business, operating results and financial condition.

Although we intend to expand our international operations and commit significant management time and financial resources to developing direct and indirect international sales and support channels, there can be no assurance that we will be able to maintain or increase international market demand for our products. To the extent that we are unable to do so in a timely manner, our business, operating results and financial condition would be materially adversely affected.

We may be adversely affected by fluctuations in currency exchange rates. While revenues from sales of products we manufacture are generally denominated in U.S. dollars, a significant portion of our expenses is incurred in NIS. We do not currently engage in currency hedging transactions. There can be no assurance that such transactions will materially reduce the effect of fluctuations in foreign currency exchange rates on our results of operation. In addition, if for any reason, exchange or price controls or other restrictions on the conversion of foreign currencies into NIS were imposed, our business could be adversely affected. There can be no assurance that fluctuations in currency exchange rates in the future will not have a material adverse effect on revenues from international sales and, consequently on our business, operating results and financial condition. As of December 31, 2004, we held no outstanding futures contracts.

Sales of some of our products involve a lengthy sales cycle. Some of our products are typically used to develop applications that are critical to a customer s business and the purchase of some of our products, especially one of our computer integrated manufacturing systems, is often part of a customer s re-engineering initiative. As a result, the licensing and implementation of our software products generally involves a significant commitment of management attention and resources by prospective customers. Accordingly, our sales process is often subject to delays associated with the long approval process that typically accompanies significant initiatives or capital expenditures. For these and other reasons, the sales cycle associated with the purchase of our products is often lengthy and subject to a number of significant delays over which we have little or no control. There can be no assurance that we will not experience these and additional delays in the future.

We are dependent on the market for technical education. We have historically derived a substantial part of our revenues and most of our gross profit and expect to continue to derive a significant portion of our gross profit from sales of our robotics products that are aimed at the technical education market. Our future performance will depend significantly on our ability to recognize, define and develop products that will meet this market s changing demands. If we fail to meet such changes, our business, operating results and financial condition would be materially and adversely affected.

We are dependent on distributors for the distribution of our products. Our Educational Sector primarily distributes its products through distributors who market those products to end-users. This sector s success depends to a substantial degree on the marketing and sales efforts of such third parties in marketing its products. There can be no assurance that these distributors will give priority to the sales of our products. In most cases, the distributors to whom our Educational Sector sells its products are not contractually required to make future purchases of products and could, therefore, discontinue carrying our products at any time.

We are dependent on Yaskawa Electric Corporation for a significant portion of our revenues and operating income. The operations of our subsidiary, Yaskawa Eshed Technology Ltd., or YET, depend on the fulfillment of the financial undertakings of Yaskawa Electric Corporation of Japan, or YEC, which holds a 50% interest in YET. In the event YEC will not be able to provide significant orders for YET s products and services, its business and financial result would be materially and adversely affected.

We are dependent on educational institutions for a substantial portion of our sales. Most of our customers are educational institutes whose budgets are subject to the decisions of external administrative bodies, including ministries of education and local education authorities. As a result the budgets for the educational institutions are often reduced during poor economic periods and our revenue generally declines under such circumstances.

We face competition in most areas in which we operate. We face competition in the Israeli market from both locally manufactured and imported products. In addition, there is significant competition for the products we market in Israel on behalf of third party suppliers. Competition exists in all the markets to which we export our range of products where our major competitors are usually local companies. However, some competitors operate worldwide; some of whom have greater financial resources than us. Our ability to compete successfully is based, among other things, on the quality and pricing of the competing products in comparison to ours, as well as our available resources for the purpose of investment, development and marketing. There can be no assurance that we will be able to compete successfully against current or future competitors or that competition will not have a material adverse effect on our future revenues and, consequently, on our business, operating results and financial condition.

We are subject to risks of business interruption and are dependent on a limited group of suppliers and subcontractors. Certain components and subassemblies included in our products are obtained from a single source or a limited group of suppliers and subcontractors. Some of these components are no longer manufactured by the original manufacture. Our reliance on a single or a limited group of suppliers involves several risks, including a potential inability to obtain adequate supplies of certain components and reduced control over pricing and timely delivery of components. Although we believe that additional sources of supply are available should one or more of our suppliers be unable to meet our needs, there can be no assurance that supplies will be available on an acceptable basis. An inability or significant delay in obtaining such components and subassemblies could have a material adverse effect on our operations, financial condition and results of operation.

Our activities are subject to technological changes. We operate in the hi-tech industry, which is characterized by rapid technological changes. Our ability to maintain our position in the market is contingent on the investment of resources in updating products and the development of new products. There can be no assurance that we will be successful in developing and marketing enhancements to our products that will respond to technological change, evolving industry standards or customer requirements. In addition, there is no assurance that we will not experience difficulties that could delay or prevent the successful development, introduction and sale of such enhancements, or that such enhancements will adequately meet the requirements of the marketplace and achieve any significant degree of market acceptance. If release dates of any new products or enhancements are delayed or, if when released, they fail to achieve market acceptance, our business, operating results and financial condition would be materially adversely affected.

The majority of our sales are based on credit arrangements. The majority of our sales to customers and distributors are carried out using customer credit, as is conventional in our market. Credit to customers in South America, Asia, Africa and Eastern Europe is usually granted against partial or full sureties. Failure to settle credit not covered by sureties may adversely affect our operating results and financial condition.

Our future success may depend on our ability to protect our intellectual property. In general, our products are not protected by patents.

In December 1998, YET filed an application for a patent in Israel and in December 1999 it filed an international application in accordance with the PCT procedure regarding an improved servo mechanism control system and method. After receiving preliminary approval from the PCT, the patent was filed and accepted in the U.S. in June 2003.

In 2002, YET filed an additional application for a patent in accordance with the PCT procedures regarding a high resolution position sensor device and method. In 2002 the patent application was approved by the PCT and is now examined in the national stage. In 2003 YET filed an application for a patent in accordance with the PCT procedures regarding the system and method to eliminate the dead time influence in a PWM driver. This application is examined now in the U.S.

During the years 2000 and 2004 our majority owned subsidiary, MemCall LLC and our wholly-owned subsidiary, Memcall Inc. submitted eleven patent applications relating to their new memory technology with call-out functions to the PCT. MemCall Ltd. is owned by MemCall LLC, in which entity we hold a 82% interest. MemCall Ltd., Memcall Inc., and MemCall LLC are collectively called MemCall. During 2004, in accordance with our board of directors decision to reduce MemCall s activities, MemCall s management decided, due to budget constraints, to continue to maintain four of the patent applications. Our first patent application regarding this technology was approved in the U.S. in December 2003.

There can be no assurance that the steps taken to protect these proprietary rights will be adequate to prevent misappropriation of such rights or the independent development of similar technology by others. There can be no assurance that others will not develop technologies that are similar or superior to our technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary.

***We may be affected by a downturn in the prices of industrial real estate*.** The stagnation in the real estate market in general and industrial real estate in particular has lead to a downturn in the rents which are paid to us for the areas which we have available for rent at our property in Rosh Ha ayin. This trend is also leading to a drop in the market value of the property, which is one of our significant assets. Should the down-turn continue or worsen, this could have an adverse affect on our financial condition. For additional information on our property in Rosh Ha ayin, see Item 4 Property, Plants and Equipment.

Risks Relating to the Standby Equity Distribution Agreement

For a detailed discussion of the Standby Equity Distribution Agreement we entered into with Cornell, see The Standby Equity Distribution Agreement.

We may not be able to access sufficient funds when needed under the Standby Equity Distribution Agreement and the price of our ordinary shares will affect our ability to draw down on the Standby Equity Distribution Agreement. Our financing needs are expected to be provided, in large part, by the Standby Equity Distribution Agreement. The amount of each advance under the Standby Equity Distribution Agreement is subject to a maximum amount equal to $250,000 every five trading days. Because of this maximum advance restriction, we may not be able to access sufficient funds when needed.

We currently hold 388,925 of our ordinary shares as treasury shares. We may pay Cornell for the advances made in connection with the Standby Equity Distribution Agreement, by issuing our ordinary shares to Cornell and by selling to Cornell all or part of our 388,925 treasury shares. For any given advance, there will be an inverse relationship between the price of our ordinary shares and the number of ordinary shares which will be sold under the Standby Equity Distribution Agreement. Based on our recent share price of $0.63, we would have to sell Cornell 8,760,158 of our ordinary shares in order to draw down the entire $5.5 million available to us under the Standby Equity Distribution Agreement (in addition to the 94,856 shares which were issued to Cornell as a commitment fee in December 2004, in connection with the same transaction). Based on our recent share price of $0.63 and the fact that we have registered for future sale to Cornell 5,851,686 of our ordinary shares under the Standby Equity Distribution Agreement in a Prospectus dated September 28, 2004 (excluding 94,856 of our ordinary shares which were issued to Cornell by way of a commitment fee), we could only draw $3,691,800 under the Standby Equity Distribution Agreement, without registering additional shares for issuance under the Agreement. Our Articles of Association currently authorize us to issue 25,000,000 shares and, as of June 17, 2005, we had 11,238,952 shares issued and outstanding (including our treasury shares). In the event we desire to draw down any available amounts remaining under the Standby Equity Distribution Agreement after we have sold all the shares registered for resale by Cornell in the Prospectus, we will have to file a new registration statement to cover such additional shares that we would issue for additional draw downs on the Standby Equity Distribution Agreement. Unless we achieve profitable operations, or realize proceeds from the disposition of some of our assets, it is unlikely that we will be able to secure additional financing from external sources other than our Standby Equity Distribution Agreement. Therefore, if we are unable to draw down on our Standby Equity Distribution Agreement, we may be forced to curtail or cease our business operations.

The issuance of ordinary shares under the Standby Equity Distribution Agreement could have an adverse effect on our ability to make acquisitions with our ordinary shares. We cannot predict the actual number of our ordinary shares that will be sold pursuant to the Standby Equity Distribution Agreement, in part, because the purchase price of the shares will fluctuate based on prevailing market conditions and we have not determined the total amount of advances we intend to draw. It may be necessary for our shareholders to approve an increase in our authorized share capital for us to register additional ordinary shares in order to have sufficient authorized shares available to make acquisitions using our ordinary shares. As we issue our ordinary shares pursuant to the Standby Equity Distribution Agreement, we may not have sufficient ordinary shares available to successfully attract and consummate future acquisitions.

Our shareholders may be diluted as a result of the Standby Equity Agreement to a degree greater than currently anticipated. We do not know how many ordinary shares, if any, will be sold to Cornell over the next two years pursuant to the Standby Equity Distribution Agreement. In addition to 94,856 of our ordinary shares to Cornell which were issued as a commitment fee and 10,540 ordinary shares which were issued to Newbridge Securities Corporation, or Newbridge, as a placement agent fee in connection with the transaction, we have registered 5,851,686 of our ordinary shares pursuant to the Prospectus, which will also be available for resale by Cornell. The 5,851,686 ordinary shares is the maximum number of our ordinary shares that we currently anticipate selling to Cornell pursuant to advances under the Standby Equity Distribution Agreement. However, based on our recent share price of $0.63, we would have to sell to Cornell 8,760,158 of our ordinary shares in order to draw down the entire $5.5 million available to us under the Standby Equity Distribution Agreement. Our ability to cause Cornell to advance funds under the Standard Equity Distribution Agreement is not subject to any minimum volume weighted average price of our ordinary shares. Assuming that the advances that we require from Cornell necessitate the issuing of ordinary shares, then the lower the price of our ordinary shares on the market at the time of an advance, the more shares will be issued to Cornell and the greater dilution will be caused to the interests of our shareholders.

Sales of our ordinary shares by Cornell could cause downward pressure on the price of our shares. Pursuant to the Standby Equity Distribution Agreement, Cornell will never be entitled to hold more than 5% of our outstanding shares. Consequently, Cornell has agreed that in the event that a future required purchase would bring it above this threshold percentage, it will sell, prior to the purchase, as many of our ordinary shares as is required to ensure that its holdings in our company will remain below the threshold percentage at the time of purchase. To the extent Cornell sells our ordinary shares, the share price may decrease due to the additional shares in the market. This could allow Cornell to be issued more of our shares following an additional advance issued by us and any subsequent sale of such greater amounts of our ordinary shares, could further depress the share price. The significant downward pressure on the price of our ordinary shares as Cornell sells material amounts of our shares could encourage short sales by Cornell or others. This could place further downward pressure on the price of our ordinary shares.

Risk Factors Related to Our Ordinary Shares

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

- quarterly variations in our operating results;
- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- announcements of technological innovations or new products by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the status of our intellectual property rights;
- announcements by third parties of significant claims or proceedings against us;
- additions or departures of key personnel;
- future sales of our ordinary shares; and
- stock market price and volume fluctuations.

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

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management s attention and resources.

Anti-takeover provisions could negatively impact our shareholders. Some of the provisions of Israeli law could:

- discourage potential acquisition proposals;
- delay or prevent a change in control over us; and

limit the price that investors might be willing to pay in the future for our ordinary shares.

Generally, under the Israeli Companies Law, a merger must be approved by the board of directors and the shareholders of each of the merging companies. If the share capital of the non-surviving company consists of more than one class of shares, the approval of each class is also required. Further, if the company was incorporated before February 1, 2000, as we were, the approval of the merger requires a majority of 75% of the shareholders present and voting at a meeting. In certain cases, court approval is also required. Under the Companies Law, a merger may be completed only after 70 days have elapsed from the date all the necessary approvals and the merger proposals have been submitted to the Israeli Companies Registrar. The Companies Law also provides that an acquisition of shares of a public company must be made by means of a tender offer if, as a result of such acquisition, the purchaser would become a 25% or more shareholder of the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of tender offer if, as a result of the acquisition, the purchaser would become a 45% shareholder of the company, in the event that there is already another 25% shareholder of the company. These rules do not apply if the acquisition is made by way of a merger. Regulations promulgated under the Companies Law provide that, generally, these provisions do not apply to companies whose shares are listed for trading outside of Israel. The requirements of Israeli Companies Law generally make these forms of acquisition significantly more difficult than under United States corporate laws.

Other potential means of acquiring a public Israeli company might involve significant obstacles, such as a requirement for court approval for the acquisition. In addition, a body of case law has not yet developed with respect to the Israeli Companies Law.

Finally, Israeli tax law treats some acquisitions, particularly stock-for-stock swaps between an Israeli company and a foreign company, less favorably than United States tax law. Israeli tax law may, for instance, subject a shareholder who exchanges his or her shares in us for shares in a foreign corporation to immediate taxation.

These provisions of Israeli corporate and tax law and the uncertainties surrounding such law may have the effect of delaying, preventing or making more difficult a merger or acquisition involving our company. This could prevent a change of control in our company and depress the market price of our ordinary shares that might otherwise rise as a result of such change of control.

We do not intend to pay dividends. We have never declared or paid any cash dividends on our ordinary shares. We currently intend to retain any future earnings to finance operations and expand our business and, therefore, do not expect to pay any dividends in the foreseeable future.

We may incur increased costs as a result of recently enacted changes in laws and regulations relating to corporate governance matters and public disclosure. Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002, rules adopted or proposed by the SEC and by the NASDAQ Stock Market and new accounting pronouncements will result in increased costs to us as we evaluate the implications of these laws, regulations and standards and respond to their requirements. To maintain high standards of corporate governance and public disclosure, we intend to invest all reasonable necessary resources to comply with evolving standards. This investment may result in increased general and administrative expenses and a diversion of management time and attention from strategic revenue generating and cost management activities. In addition, these new laws and regulations could make it more difficult or more costly for us to obtain certain types of insurance, including directors and officers liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on our board committees or as executive officers. We are presently evaluating and monitoring developments with respect to these laws and regulations and cannot predict or estimate the amount or timing of additional costs we may incur to respond to their requirements.

Risks Associated with Operations in Israel

Conducting business in Israel entails special risks. We are incorporated under the laws of, and our main offices and our production facilities are located in the State of Israel. Accordingly, we are directly influenced by the political, economic and military conditions affecting Israel. Specifically, we could be adversely affected by any major hostilities involving Israel, a full or partial mobilization of the reserve forces of the Israeli army, the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Beginning in late September 2000 and until the first months of 2005, there was a significant increase in hostilities and unrest as between Israel, the Palestinian Authority and certain terrorist groups operating within the Palestinian Authority. Since the beginning of 2005, negotiations between Israel and the Palestinian Authority have been renewed and hostilities have diminished. While such development has calmed the region, any escalation in these hostilities or any future armed conflict, political instability or violence in the region may have a negative effect on our business condition, harm our results of operations and adversely affect our share price. Furthermore, there are a number of countries that restrict business with Israel or Israeli companies. Restrictive laws or policies of those countries directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

Our results of operations may be negatively affected by the obligation of our personnel to perform military service. Many of our male executive officers and employees in Israel are obligated to perform up to 36 days, depending on age, rank and position, of military reserve duty annually and are subject to being called for active duty under emergency circumstances. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

The economic conditions in Israel have not been stable in recent years. In recent years Israel has been going through a period of recession in economic activity, resulting in low growth rates and growing unemployment. Our operations could be adversely affected if the economic conditions in Israel continue to deteriorate. In addition, due to significant economic measures proposed by the Israeli Government, there have been several general strikes and work stoppages in 2002 and 2003, affecting banks, airports and ports. These strikes have had an adverse effect on the Israeli economy and on business, including our ability to deliver products to our customers. Following the passage by the Israeli Parliament of laws to implement the economic measures, the Israeli trade unions have threatened further strikes or work-stoppages, and these may have a material adverse effect on the Israeli economy and on us.

We are subject to the impact of inflation and currency fluctuations. Since some of our expenses are denominated in NIS but relate to the portion of our sales which are denominated in U.S.$, the translation of these expenses into U.S.$ is influenced by the extent to which any inflation in Israel is not offset (or is offset on a lagging basis) by the devaluation of the NIS in relation to the U.S.$. The inflation rate in Israel was 0% in 2000, 1.41% in 2001, 6.5% in 2002, (1.9)% in 2003, and 1.2% in 2004. At the same time, the devaluation of the NIS against the U.S.$ was (2.7)% in 2000, 9.2% in 2001, 7.3% in 2002, (7.6)% in 2003, and (1.6)% in 2004. We could be adversely affected in the future as a result of currency and or inflation fluctuations.

We may be adversely affected by tax reform in Israel. On July 24, 2002, Amendment 132 to the Israeli Tax Ordinance (the Amendment) was approved by the Israeli parliament and come into effect on January 1, 2003. The principal objectives of the amendment were to broaden the categories of taxable income and to reduce the tax rates imposed on employees income. The material consequences of the amendment applicable to our company include, among other things, imposing a tax upon all income of Israeli residents, individuals and corporations, regardless of the territorial source of the income and certain modifications in the qualified taxation tracks of employee stock options.

It may be difficult to enforce a U.S. judgment against us and most of our officers and directors or to assert U.S. securities laws claims in Israel or serve process on most of our officers and directors. We are incorporated in Israel. Most of our executive officers and directors are nonresidents of the United States, and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce a U.S. court judgment based upon the civil liability provisions of the U.S. federal securities laws in an Israeli court against us or any of those persons or to effect service of process upon these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to enforce civil liabilities under U.S. federal securities laws in original actions instituted in Israel.

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

Your rights and responsibilities as a shareholder will be governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law. We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our legal and commercial name is RoboGroup T.E.K. Ltd. We were incorporated under the laws of the State of Israel in 1982 as Robotec (G.A.L.) Industrial Robotic Technology Ltd. for an indefinite term. In 1983 we changed our name to Eshed Robotec (1982) Ltd. On December 2000, we changed our name to RoboGroup T.E.K. Ltd. Our registered office and principal executive offices are located at 13 Hamelacha Street, Afek Industrial Park, Rosh Ha Ayin 48091 Israel and our telephone number is 972-3-9004111. Our address on the internet is http://www.robo-group.com. The information on our website is not incorporated by reference into this annual report.

We operate through two business sectors. The first sector focuses on our traditional business activities, the education field. This sector includes our research and development sections, the operations section, and the marketing and sales of our products and products manufactured by third parties, to the Israeli and international training and education markets.

The second sector consists of our partly-owned subsidiary Yaskawa Eshed Technology, or YET, which is engaged in the development and manufacture of motion control products for the industrial market. We hold 50% of YET s issued share capital, with the remaining 50% being held by Yaskawa Electric Corporation, or YEC.

Until 2003 we had a third business sector which was comprised of our start-up company MemCall

MemCall was engaged in the development of a new search technology which was intended to reduce the time for locating and retrieving data in computers and communications networks. In December 2003, our board of directors decided to significantly reduce the amount of investment in this activity, and since the beginning of 2004, while we are maintaining four of Memcall s patents and patent applications, it has become operationally inactive.

Recent Developments

During 2004 we continued to implement the cost-cutting measures in the education sector, which we had commenced in 2003 in order to improve our financial status and profitability, including personnel cuts, the consolidation of related activities, the reduction of salary costs of our senior executives and the reduction in general expenses. We reduced our operating expenses in 2004, by approximately NIS 9 million ($2.1 million) compared to 2003. These measures have improved both our financial results for 2004 compared to 2003, and our negative cash flow.

Standby Equity Distribution Agreement

On June 22, 2004, we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners LP, or Cornell. Pursuant to the Standby Equity Distribution Agreement, we may, at our discretion, periodically issue advance notices to Cornell requiring it to purchase our ordinary shares for a total purchase price of up to $5,500,000. In connection with the Standby Equity Distribution Agreement, we registered 5,957,082 of our ordinary shares on a registration statement on Form F-2, that was declared effective on September 28, 2004. For more information on the Standby Equity Distribution Agreement, see Item 10, Additional Information Material Contracts.

Agreements between YET and YEC

In January, 2004, our subsidiary YET entered into a one year Development Agreement with its other major shareholder YEC, pursuant to which YET provided development services to YEC based on the demand and special definitions of YEC for $1.6 million.

In February 2004, YET entered into a one year separate Royalty Agreement with YEC pursuant to which YEC paid YET royalties for its use of technology developed by YET (other than in the framework of the Development Agreement).

On January, 2005, YET entered into a one year new Development Agreement with YEC pursuant to which YET provided development services to YEC based on the demand and special definitions of YEC for $1.6 million.

On January 1 2005, YET entered into a five year separate Royalty Agreement with YEC pursuant to which YEC is paying YET royalties for its use of technology developed by YET.

On December, 2004, we received a dividend of US $400,000 from YET. In March 2005, we received a further dividend of US $200,000 from YET.

Investments in our subsidiary MemCall

During the course of 2003, MemCall invested significant efforts in negotiating with potential strategic partners (manufacturers and marketers in the global silicon market) none of which matured into a contract.. MemCall conducted negotiations with several potential strategic partners, none of which matured into a contract. In December 2003 our board of directors decided to significantly reduce our continued investment in Memcall. As at the time of this report, Memcall does not directly employ any employees but is continuing to maintain four of its patents.

As of December 31, 2004 we have invested $4.7 million in the development of MemCall.

B. Business Overview

Products

Our products in the field of education include three main product lines:

(1) Training products in the field of automation and robotics;

(2) CNC machines;

(3) E-learning and Distance learning products.

The education products we offer, are intended mainly for education institutes dealing with the field of technological training, such as technological, high and post-high schools, universities, etc. A small number of the products (CNC products) are used for manufacturing in certain industrial fields.

We sell the products in the education field as individual products or as part of integrated packages that provide a comprehensive turn-key solution. Additionally, the customer may choose the scope of the system, its internal variety of components of hardware, software, simulation, distance learning and e-learning.

Training products in the fields of automation and robotics

This product line includes training systems based on a range of technologies in the field of industrial automation, such as robots, training stations in the field of pneumatics, hydraulics, sensors, programmable controllers, process control, machine vision systems and computer integrated manufacturing (CIM).

The training systems include a range of robots manufactured by us, aimed for training, laboratory and research applications. Users receive hands-on experience in operating robots, constructing work stations, writing robotic programs, interfaces with sensors, and develope software. The robots differ in performance, size, price and the training functions they provide. We offer simulation software for most of the training products of this type, thus providing the schools with two basic advantages:

Acquiring skills while overcoming the fear that some people have when operating the actual product.

Saving the institution a significant amount of investment by providing an infrastructure to allows many students to train while using virtual products, and fewer amount of hardware based products.

CNC machines

This product line includes a range of CNC milling and turning centers featuring a PC based control system. The CNC machine tools are suitable for cutting a variety of plastic and metal materials. l. The CNC machine are manufactured and marketed by our subisidiary Intelitek. The CNC products are developed for career and technical training programs, pre-engineering educational programs as well as industrial applications requiring complex operations and accurate manufacturing capabilities. We supply a number of models of the CNC products, all offering a high degree of accuracy and repeatability and easy to use Window-based control software Using our CNC machine tools combined with our CAD/CAM technologies students and manufactures are able to smoothly and efficiently integrate product design, created part geometry and produce parts.

In 2004, we launched two new CNC product machining centers:

The Benchman MX was introduced for industrial applications and delivers an advanced modular concept in CNC machining. A diverse selection of features and options allows multiple configurations and the flexibility to create the machine tool for specific needs without adding costs for unused capabilities.

The eXpert Mill VMC-0600 provides a high performance, lower cost, CNC milling center for training and industrial prototyping. The machine offers simultaneous three- or four-axis machining. Optional higher performance controller, automatic tool changers and 4th axis rotary positioners are available.

E-Learning and Distance Learning Products

This product line includes a comprehensive library of web-based, self paced, training modules, in the field of industrial technologies, pre engineering, environmental and civil engineering, and the platforms/systems LearnMate and TrainNet:

LearnMate

LearnMate is an E-learning environment that enables delivery of lessons over the internet, and combines asynchronous courses (students can participate in their own time, or self learning) and synchronous lessons (live lessons over the internet, with a remote teacher, taking place at a specific time), and includes:

Learnmate Content a system containing over a thousand interactive training hours in industrial technology that combine virtual learning and hands-on lab environment.

LearnMate LCMS (Learning Content Management System) a virtual campus, that manages online learning including registration, reports, administration, content creation, content delivery and community collaboration.

LearnMate Live an interactive distance learning system that allows instructors to conduct and manage live lessons to remote sites via the internet, including the tools to create content and manage the virtual classroom and to reach numerous remote students.

TrainNet

TrainNet is a live interactive distance learning system, which enables instructors to conduct and manage live lessons from a central location to any number of remote sites, over broadband communication channels such as satellite or DSL. TrainNet provides students with experience which is similar to a classroom lesson, they can see, hear and interact with the teacher in real time. Students can also communicate with each other by use of chat rooms and e-mail, and can activate applications from long distance.

In 2004, we launched new software versions of TrainNet, with important features such as software based return video and dual bandwidth (internet and satellite) simultaneous broadcasting, and worked towards the launch of a new major version of LearnMate, that includes a new friendly user interface, in multiple languages, and many new major features.

Our products in the education sector may be used for training in a range of combinations:

- A training product for a certain technology;
- Systems that incorporate training for a range of technologies;
- Systems that incorporate virtual training via the Internet, on the one hand, and hands-on training in the laboratory on the other; and
- integrated systems that include a large range of products and solutions as detailed above as follows:

Technology for Engineering and Automated Manufacturing (TEAM)

The TEAM system is a comprehensive solution for preparing students for continuing their studies and careers in the fields of engineering and industrial manufacturing. The system was developed in accordance with the needs of the U.S. market and is curriculum and projects oriented, allowing entry into the world of computer aided manufacturing technologies. The system includes interactive training, hardware, simulation software and course management. The topics included in TEAM include: robotics, sensors, machine vision, quality control, pneumatics, hydraulics, programmable logic controllers (PLCs), data acquisition and process control, electricity and electronics, automatic identification systems, computer numerical control (CNC) machining, computer aided design and manufacturing (CAD/CAM) and computer aided welding. The system provides for the study of each subject individually or for an integration of a number of technologies. The learning is managed by the LearnMate system through the Internet or over a local area network (LAN) connection. The system can also include virtual learning contents. The customer may purchase a comprehensive or partial TEAM system, with future expandability.

CIM (Computer Integrated Manufacturing)

The CIM system is an automated computerized manufacturing system, a kind of unmanned plant that incorporates a range of technologies. In the CIM system, the student goes through a comprehensive computerized manufacturing process, from the stage of product design to its full manufacturing. The CIM system is expanded from learning stations such as: computerized warehouse; programmable controller operated conveyor; stations for manufacturing (such as CNC, laser machining, etc.), assembly, welding, quality control; central management station; communication network (LAN), OPEN CIM management software.

The system is defined by the customer s requirements, in which equipment and machines existing at the customer s premises may also be incorporated.

Using the OPEN CIM software we have developed, the student may build a manufacturing layout on the computer screen. The student chooses items from a directory, defines manufacturing processes, defines the raw materials and prepares a manufacturing order. The student may create different manufacturing scripts for choosing the optimal manufacturing layout. The software includes a 3D graphic module, which displays all the system components in action.

In addition to the above products, we also provide installation and maintenance services for the systems that are sold. These services include application and assimilation of systems at the customer s premises (usually when purchasing comprehensive systems), maintenance systems for systems covered by warranties given by us and maintenance service after warranty periods expire. We also provide upgrade services for existing systems.

Marketing and Customers in the Education Sector

Typical Educational Sector customers are universities, colleges, high schools (technical and vocational), junior high schools and research and developments institutions. The products of our Educational Sector, which provide a relatively low-cost alternative to the purchase of industrial equipment for teaching purposes, incorporate special design features for ease of teaching.

The Educational Sector currently markets its products through our subsidiaries and independent distributors in Europe, Asia and South America. Since 1997, these products have been distributed to the educational market in the U.S. and Canada through Intelitek.

Most of the Educational Sector products are aimed at the export market. The principal markets for our products and third party products marketed by our Educational Sector are the U.S., the Far East, Israel, Europe and South America. Most of our sales in the Israeli market relate to third-party products. Most of the Educational Sector s products resulting from our research and development are aimed at the export market.

The distribution of our sales in the field of education activity for 2004 by geographic regions follows:

Region	Sales in NIS in thousands	Percentage of the total revenues of the education activity
North America	27,265	52%
Israel	5,037	10%
Far East	6,938	14%
Europe	4,355	9%
South America	6,195	12%
Others	1,441	3%
Total	51,233	100%

The activity of marketing, sale and distribution of our products in the education sector is performed by us or our subsidiaries as follows:

Intelitek, a fully-owned subsidiary is responsible for marketing and sales of our products in North America. Intelitek works with local and external distributors, usually with exclusivity agreements for distribution in certain states or a number of states in the USA. From time to time, subject to the distributor not meeting sales objectives, Intelitek may replace agents in certain states.

RoboGroup s education division is responsible for the marketing of our education products outside of Israel, other than in North America. We have contacts with local and external distributors, usually through exclusivity agreements for distribution in their country or in a certain defined region. Sometimes, we may execute a non-exclusive distribution agreement with a certain distributor, and sometimes the agreement applies to a defined project or time span. Occasionally, subject to the distributor not meeting its sales objectives, we may replace agents in certain countries.

Robotek Technologies, a fully-owned subsidiary is responsible for marketing our education products in Israel.

Sometimes we, or Intelitek sell directly to end customers without using distributors. This may occur in territories in which there is no local distributor working for us or if the customer requires direct contact with the supplier. Some of our sales are performed through participation in local tenders by government ministries, local authorities and public education networks. In 2004, no substantial changes occurred with respect to our marketing and distribution channels or agreements with distributors.

Manufacturing and Supply in the Education Sector

Our Educational Sector manufactures most of its products in-house. Operations mainly include assembly, integration and quality control. Machining and some other basic operations are provided by sub-contractors.

Patent and Proprietary Rights in the Education Sector

In general, our products are not protected by patents. In 1997, however, we registered a patent in Israel, for the method and apparatus used for the direct teaching of automatic machines. This patent passed the International preliminary examination of the Patent Corporation Treaty, or PCT, and is now examined in the national stage. This patent application was filed in the U.S., and the European Level made an initial review that did not raise significant opposition. The application was forwarded to the Individual European Countries which we designated.

We own registered trademarks in Israel for Light Machines , Robotek Technologies and Intelitek . We also own registered trademarks in Israel and the USA for SCORBOT and a trademark registered in the USA for VIEWFLEX .

We also have copyrights for contents, study programs and software that we have developed, which constitute part of our products in the education sector in general and in the field of distance learning and e-learning in particular.

Competition in the Education Sector

We have many competitors in our various product fields and regions where we do business.

In the fields of automation and robotics products and CNC machinery, there are dozens of competing companies, most of which are not public and do not customarily divulge information about the scope of their sales and marketing. We estimate that we are one of the leaders in this field in the world. To the best of our knowledge, our significant competitors in these sectors include: Festo Didacta, Emco, Amatrol, Lab Volt and Denford.

In the fields of distance learning and e-learning products, there are a large number of competitors. We estimate that most of the competing companies provide content development services or content and student management systems (LMS) that compete with our LearnMate product. To the best of our knowledge, the major competitors in this sector are: Docent, Saba and Blackboard.

In the field of distance learning of synchronic systems such as TrainNet and LearnMate Live, there are fewer competing companies. To the best of our knowledge, significant competitors include: Interwise, Centra Software, One Touch and Arel Communications.

We face competition in the Israeli market. This competition is not material in the robotics field, but is more significant with respect to the Light Machine product line manufactured by Intelitek Inc., our fully owned subsidiary. There is also significant competition for the products of third party suppliers that we market in Israel through our subsidiary Robotec Technologies Ltd.

Seasonality in the Education Sector

Our sales in North America, which is one of our major markets in the field of education, is marked by seasonality. Sales in the first quarter are usually lower than other quarters, whereas the sales of the second and third quarter are generally higher. The seasonality is related to the date of beginning and end of the budget year, with the first quarter usually involving institutes making planning and budget requests. Despite the foregoing, sales within large-scale projects significantly affect seasonality in North America in particular and the field of education in general.

The amount of sales by fiscal quarter in the education field during the last two years is provided in the following table:

Quarter	**Year**	**Sales in the field of education in $ in thousands**	**Percentage of annual sales in the field of education**
1	2003	2,469	22%
2	2003	2,913	26%
3	2003	3,840	34%
4	2003	2,042	18%
1	2004	2,708	24%
2	2004	2,403	21%
3	2004	2,530	22%
4	2004	3,878	33%

Outside of North America our sales are not materially marked by seasonality.

Raw materials and suppliers in the Education Sector

Motion products

These items are used in most of our products and are purchased from various suppliers. The annual purchase scope is estimated at about $720,000. The purchasing is performed mainly in the USA and in Japan.

Machining products, mechanical equipment and other mechanical items

These items and products exist for most of our products and are purchased from a large range of suppliers. The annual purchase scope is estimated at approximately $1,000,000.Most of the items used by Intelitek are purchased from local suppliers in the USA. Most of our items are purchased from local suppliers in Israel.

Electronic components and electricity and control products

Components and products for most of our products are manufactured and/or purchased from a large number of sources around the world. The annual purchase scope is estimated at about $800,000.

Industrial Motion Control Products

We operate our second business sector through YET, which engages in the development and manufacture of motion control products for the industrial market.

The industrial motion controllers are electronic systems with embedded software whose function is to supervise the process of the regular operation of machines and motors of various kinds and sizes. Our products in this sector are aimed at factories and machine manufactures in various industries, such as the semiconductor packing machine, CNC machine, large printer and other motorized facility apparatus.

These products are developed, manufactured and marketed by our jointly owned subsidiary YET. Its main products are a series of XtraDrive type motion controllers, whose function is to synchronize and control the actions of electric motors, providing for exact motion control for complex machines:

XtraDrive

XtraDrive is YET s first product and is a next generation intelligent servo driver with an integrated positioner. The integrated positioner works as a memory, that may be programmed for performing various complex actions in accordance with the needs of the machine in which it is installed. The XtraDrive is based on a new propriety control technology offering solutions for the most demanding applications. The XtraDrive includes a software tool, called XtraWare, for the setup, optimal tuning and user programming of the XtraDRive AC servo driver.

XtraDrive DP

XtraDrive DP, or XDP, is an additional servo driver developed and manufactured by YET. The XDP use the Profibus communication protocol, which is widely used in the European market. The XDP can be easily integrated in machines using such a protocol.

Marketing and Customers in the Industrial Motion Control Sector.

In 2004, YET commenced focusing on international marketing efforts.

In November 2003, YET signed a distribution agreement with Omron Yaskawa Motion Control, or OYMC, a European corporation, owned by YEC (40%) and Omron (60%), for the distribution of YET s products in Europe. Pursuant to the agreement, OYMC was given the exclusive right to distribute YET s industrial motion controllers in Europe (subject to distribution rights given to an Italian company called MPC), Africa, the states of the former Soviet Union and Middle East (other than in Israel). The agreement was signed for a five-year term and will conclude in September 2008. Pursuant to the agreement, in the event that OMYC fails to meet certain annual milestones, its marketing and distribution rights will no longer be exclusive. In the USA, YET markets its products through a fully owned US subsidiary, YET US Inc. YET operates in the US through regional distributors who receive technical and marketing support from YET US for the sale of its products. During 2004, YET continued to develop independent marketing channels in the U.S. market through YET US Inc., In the first quarter of 2004 YET US Inc. hired a managing director and several additional employees for marketing activities and technical support.

YET markets its products in Israel and also markets and distributes the products of YEC in the Israeli market. During 2004, YET continued its efforts to market XtraDrive product in Israel.

YET depends on a single customer, whose purchases account for approximately 10% of YET s total revenues. In selling development services, YET has one major customer YEC which accounted for approximately 50% of YET s revenues. Revenues from YEC were for development services and royalties from YEC relating to industrial motion controllers using technologies developed by YET.

In 2004, YET did not have a single industrial motion controller customer that accounted for more than 10% of our consolidated revenues.

The geographic distribution of the revenues in our consolidated financial statements, in the sector of industrial motion control in 2004 is provided below:

Region	Sales in NIS in thousands	Percentage of total revenues from industrial motion control activity
North America	427	4%
Israel	2,010	19%
Japan	5,286	50%
Europe	2,849	27%
Total	**10,572**	**100%**

Manufacturing and Supply in the Industrial Motion Control Sector

YET assembles most of its products in-house. Machining, PCB assembly, and some other basic operations are provided by sub-contractors.

Patent and Proprietary Rights in the Industrial Motion Control Sector

YET owns three patents for technology that it developed and on which intelligent motion controllers are based, as follows:

Improved Servomechanism Control System and Method patent. This is a patent that deals with motion control. The patent is registered in Israel and the USA. The patent is also pending registration in Japan, Korea and Europe.

High Resolution Position Sensor Device and Method patent. This is a patent that also deals with motion control. The patent is registered in the USA. The patent is also pending registration in Israel, Japan, Korea and Europe.

The Company believes that these patents are responsible for YET s products having the best performance characteristics in the market. YET believes that the remaining economic lifespan of these patents is approximately 6 to 8 years.

YET s Pulse Width Modulation, or PWM field patent which is engaged in improving the use of PWM technology for output control. YET is not currently using this patent.

YET is also registering another patent in the USA.

Competition in the Industrial Motion Control Sector

YET has many competitors in the field in which it operates. In the USA, YET has dozens of competitors, major ones being: The U.S. companies Danaher Motion LMS and Allen Bradley. In the European market, we also have dozens of competitors in the sector of industrial motion controllers. We estimate that YET s major competitors are Siemens and Indramat.

There are six major competitors in the Israeli market.

Seasonality in the Industrial Motion Control Sector

There is no material seasonality in this sector of our business.

Raw materials and suppliers

The main raw materials utilized in the sector of industrial motion controllers are electronic and other components used in manufacturing controllers and these may be purchased from various suppliers in Israel and abroad. YET purchases about 60% of the raw materials used in manufacturing motion controllers from YEC, based on an agreement entered into in 2002 which grants YET an option to purchase raw materials at a convenient price and terms. YET s undertaking to purchase raw materials at a negotiated minimal scope is not determined in this agreement. The original agreement was valid for a year and has been renewed with the consent of both parties every year since. YET is dependent on YEC as a supplier of electronic component systems for its products.

C. Organizational Structure

Sets forth below are the legal name, location and country of incorporation, percentage of ownership and description of business of each of our subsidiaries:

Fully owned subsidiaries:

Intelitek Inc. (**Intelitek**) a company incorporated in Delaware, USA, engaged mainly in the development, manufacturing, marketing, sale, technical support and maintenance of computerized machining (CNC) products, marketed under the name of Light Machines. Intelitek is also engaged in the marketing, sale, technical support and maintenance of our education division s products in North America.

Robotec Technologies Ltd. (**Robotec Technologies**) a company that was incorporated in Israel and that is engaged in the marketing, distribution, installation and maintenance of our products and accessory products for the scientific and technological training market in Israel.

Eshed Robotec B.V. a company incorporated in the Netherlands, used to manage all of RoboGroup s activities in Europe and engaged in investments in new fields of activity.

Burelco N.V a company incorporated in Curacao that was used as a holding company for the activity of MemCall (see below).

Partially owned subsidiaries:

Yaskawa Eshed Technology Ltd. (**YET**) a company incorporated in Israel, in which we hold 50% of its share capital. The other shareholder in YET is the Japanese company Yaskawa Electric Corporation (**YEC**), which also holds 50% of YET s share capital. YET develops and manufactures motion control products for the industrial market and sells development services in the sector of motion control for industry, mainly for YEC. YET has a fully owned subsidiary, YET US Inc., which is incorporated in the USA and is engaged in the marketing and distribution of YET s products in the USA (**YET US**).

MemCall LLC and MemCall Ltd were incorporated in 2001 in the USA and in Israel, respectively, and their shares are held by us through our subsidiary in the Netherlands, Eshed Robotec B.V. and its subsidiary in Curacao Burelco N.V. The Company s percentage ownership in MemCall is approximately 82%.

We also fully own five operationally inactive companies:

Computras Computerized Training Systems Ltd. (**Computras**) a company incorporated in Israel that was engaged in the planning, development, manufacture and marketing of learning applications and software for training purposes. During 2003, the activities of Computras and RoboTec Technologies were merged, following which the merged company ceased its operations.

Computras Marketing Training Systems (1988) Ltd. a company incorporated in Israel, which was active until 2002 in the marketing of learning applications and software for training purposes.

MemCall Inc. a company incorporated in the USA that operated with MemCall.

Intelitek Training Systems (1989) Ltd. (formerly Sim Lev Ltd.) a company incorporated in Israel that was engaged in software development.

Robotec Industries Ltd. a company incorporated in Israel in 1993 the activity of which has yet to commence.

D. Property, Plants and Equipment

In January 1993, we entered into a lease for a parcel of land in the industrial park Rosh Ha Ayin with the Israel Land Authority, where we constructed a building of approximately 110,000 square feet for offices, service areas, parking areas and production facilities. The lease for the land expires in 2042 and can be renewed for an additional 49 years. We and our Israeli subsidiaries currently occupy approximately 50% of the facility. We lease the remaining areas in the building to commercial tenants, most of it to three commercial tenants for periods of between two and five years.

Our total annual revenues from these leases was approximately $440,000.

Intelitek s lease for its facility in Manchester, New Hampshire, will terminate in July 2005. The annual rent is approximately $128,000. We anticipate extending this lease by another year.

The YET offices and production plant are located in a building owned by us in Afek Industrial Park (the Rosh Ha ayin Industrial Zone), where YET rents about 11,000 square feet area from us. This space houses YET s manufacturing, research and development, marketing, sales and technical support departments as well as its management.

YET US occupies an area of about 1000 square feet within the Intelitek offices in Manchester, New Hampshire, USA.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Operating Results

You should read the following discussion and analysis in conjunction with Item 3A. Selected Financial Data as well as our consolidated financial statements and related notes which appear elsewhere in this registration statement. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this registration statement.

General

Definitions:

Adjusted amount historical nominal amount adjusted for the Israeli CPI as of December 2003, according to the provisions of Opinions No. 23 and No. 36 of the Institute of Certified Public Accountants in Israel.

Reported amount adjusted amount as of the transition date (December 31, 2003), plus additions in nominal values after the transition date and less amounts deducted after the transition date. Deduction of amounts after the transition date is in nominal historical values, in adjusted amounts as of the transition date or combination of nominal historical values and adjusted amounts as of transition date, according to its own merits.

Our financial statements as of the dates and for the reported periods subsequent to December 31, 2003, are presented in reported amounts, in conformity with Accounting Standards of the Israel Accounting Standards Board. Our financial statements as of the dates and for the reported periods until the aforementioned date are presented in values that were adjusted until that date according to the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Pubic Accountants in Israel.

A convenience translation into U.S. dollars at the rate of exchange between the NIS and the U.S. dollar at December 31, 2004 (NIS 4.308 = $1) is also presented for the year ended December 31, 2004, and elsewhere in this annual report. The translation into U.S. dollars should not be construed as a representation that the Israeli currency amounts actually represent or could be converted into U.S. dollars.

Recent Accounting Pronouncements

On July 2004, the Israeli Accounting Standards Board published Accounting Standard No. 19, Taxes on Income . The Standard provides that a liability for deferred taxes is to be recorded for all temporary differences subject to tax, except for a limited number of exceptions. In addition, a deferred tax asset is to be recorded for all temporary differences that may be deducted, losses for tax purposes and tax benefits not yet utilized, if it is anticipated that there will be taxable income against which they can be offset, except for a limited number of exceptions. The new Standard applies to financial statements for periods beginning on January 1, 2005. The Standard provides that it is to be implemented by means of a cumulative effect of a change in accounting method.

The Company estimates the impact of the Standard on its financial statements will not be material.

Critical Accounting Policies

We have identified the policies below as critical to the understanding of our financial statements. The application of these policies requires management to make estimates and assumptions that affect the valuation of assets and expenses during the reporting period. There can be no assurance that actual results will not differ from these estimates.

We prepare our financial statements in accordance with Israeli GAAP and United States GAAP. As such, we are required to make certain estimates, judgments, and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented.

The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of our operations are discussed below.

Revenue Recognition. Revenues from sale of products and from the sale of software rights are generally recognized upon delivery, provided that payment is fixed or determinable, collectibility is probable and there is no significant obligation remaining.

In a revenue arrangement with multiple deliverables, the delivered item(s) considered a separate unit of accounting if all of the following criteria are met:

1. The delivered item(s) has value to the customer on a standalone basis.
2. There is a vendor specific objective evidence of fair value (market value) of the delivered item(s).
3. If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor.

Revenues from the sales of products dependent on installation are recognized on the conclusion of the installation. With respect to transactions that were entered into from June 15, 2003 and henceforth, the company adopted the provisions of publication of the Emergency Issues Task Force on Issue 00-21 (EITF 00-21) and they are recognized as arrangement with multiple deliverables as detailed above.

Revenues from development services are recognized upon completion of the development, and in accordance with the terms of the related contracts.

Revenues from software maintenance services are recognized ratably over the contractual period.

Revenues from the grant of production licenses are recognized upon fulfilling the terms of the commitments under the contract and are spread over the license period.

Revenues from software and content development based upon a fixed cost performance contract are recognized on completion percentage basis. Completion percentage is determined on actual cost compared to the total predicted cost basis

Inventories. Inventories are stated at the lower of cost or market. The Company continuously examines the risk deriving from slow movement of inventories, technological obsolescence, inventories excess and market lower than cost.

Cost is determined as follows:

Raw materials and bought-in by the moving average method.

Work in process and finished products: The raw materials component by the moving average method. Labor and production overheads component on the basis of actual manufacturing costs

Fixed Assets. Fixed assets are stated at cost, demonstration equipment are valued at the cost of finished products of the same type less accumulated depreciation. Financing costs of credit lines opened for financing the purchase of the building, in the period prior to its use, have been capitalized. Depreciation is calculated according to the straight-line method at the following rates, which are considered to be adequate to the depreciation of the assets over the course of their estimated useful lives:

Machinery and equipment (mainly 20%)	10% 20%
Office equipment and furniture (mainly 6%)	6% 10%
Computers and computerized equipment (mainly 33%)	20% 33%
Vehicles (mainly 20%)	15% 20%
Building (mainly 2%)	2% 4%
Leasehold Improvements	Over the lease period

Investments in Investee Companies and Other Companies. The investments in Investee companies are stated in the Company s financial statements on an equity value basis. The excess of cost of the investment in an Investee company over its net equity value on acquisition, which is not directly attributable, represents goodwill and is amortized over a period of five years. Investments in other companies, held as long-term investments, are presented at cost.

Research and development expenses. Research and development costs are charged to income as incurred. Related grants are deducted from the related cost on an accrual basis

Significant Costs and Expenses

Depreciation of property. Building Depreciation and amortization expense and equipment is provided on a straight-line basis over the course of their estimated useful lives. Know-how and rights to products are amortized according to the straight-line method on the basis of their estimated useful lifetime, which is approximately three years.

Research and development expenses. We have invested a significant portion of our resources into the development of products. The following table sets forth the total research and development costs, the amount of royalty-bearing grants received from the Government of Israel, and the net research and development expenses for the periods indicated:

	Year Ended December 31,2003			
	2002	2003	2004	2004
	Adjusted Amounts (NIS in thousands)		Reported Amounts (NIS in thousands)	Convenience translation into $
Total research and development costs	15,775	13,352	7,619	1,769
Less grants and participations	(3,020)	(701)		
Research and development, net	12,755	12,651	7,619	1,769

Employee benefits expenses. Employee benefit expenses consist primarily of payments to employees for their services as employees.

Other expenses from ordinary activities. Other expenses from ordinary activities consist primarily of accounting and administrative services, travel, insurance, marketing and overhead expenses.

Results of Operations

The following table sets forth, for the periods indicated, selected financial information with respect to our operations as a percentage of revenues:

	Year Ended December 31,		
	2002	2003	2004
Revenues	100.0%	100.0%	100.0%
Cost of revenues	48.1	58.1	58.1
Gross profit	51.9	41.9	41.9
Research and development expenses, net	14.8	22.4	12.3
Marketing, selling, administrative and general expenses	32.3	48.5	37.7
Financial income (expenses), net	(1.6)	(6.7)	(3.4)
Other income (expenses), net	1.9	3.6	1.3
Taxes on income	1.2	(0.1)	2.3
Net income (loss) for the year	3.9	(32.0)	(12.5)

Year Ended December 31, 2004 as Compared with Year Ended December 31, 2003

Revenues. Revenues consist primarily of product sales and revenues from services including project development, maintenance and support, increased by approximately NIS 5.6million ($1.3 million) to NIS 61.7 million ($14.3 million) from revenues of NIS 56.1 million in 2003, principally as the result of an increase in revenues from our education sector, in the sum of NIS 2.1 million ($0.5 million) and an increase in revenues of a proportionately consolidated company (YET), in the amount of approximately NIS 3.5 million ($0.8 million).

Cost of Revenues. In 2004, our cost of revenues for products manufactured by us as well as products manufactured by others was 58% of revenues, compared with 58% of revenues in 2003.

Gross Profit. Our gross profit increased by approximately NIS 2.4 to approximately NIS 25.9 million ($6 million) in 2004 from approximately NIS 23.5 million in 2003.

Operating expenses. In 2004, operating expenses totaled approximately NIS30.9 million ($7.2 million), compared with approximately NIS39.8 million in 2003. Operating loss in 2004 was approximately NIS 5 million ($1.2 million) as compared with operating loss of NIS 16.3 million in 2003. The drop in the operating loss is attributed mainly to the growth in sales and in gross profit, the significant cutback in the activity of MemCall and the streamlining and cutbacks in expenses in the sector of education activity. If the inventory write-off in the sum of approximately NIS2.6 million, were excluded, we would have had operating loss for 2004 of approximately NIS 2.4 million ($0.6 million).

Research and Development. Total research and development expenses decreased, to approximately NIS 7.6 million ($1.8 million) in 2004 from approximately NIS 12.7 million in 2003. The decrease in research and development expenses stemmed mainly from a significant reduction in MemCall s development expenses and from a decrease in research and development expenses in the education activity sector.

Marketing and Selling. Marketing and selling expenses increased in 2004 to approximately NIS 13.2 million ($3.1 million), from approximately NIS 12.6 million in 2003, mainly as a result of the increase in marketing expenses in the industrial motion control segment of our business.

Administrative and General. Administrative and general expenses decreased to approximately NIS 10 million ($2.3 million) in 2004 from approximately NIS 14.6 million in 2003, mainly as a result of streamlining and reducing adminstative expenses in the filed of education activity and reducing the activity of MemCall.

Financial Income (Expenses,) Net. We incurred financial expenses of approximately NIS 2.1 million ($0.5 million) in 2004, compared to financial expenses of approximately NIS 3.8 million in 2003. The drop in financial expenses in 2004 is attributed mainly to a reduction in exchange rate differences.

Other Income (expenses). Other income, net amounted to approximately NIS 0.8 million ($0.2 million) in 2004 compared with other income, net of approximately NIS 2.0 million in 2003, mainly due to a decrease in income net of expenses from leasing space in our building.

Year Ended December 31, 2003 as Compared with Year Ended December 31, 2002

Revenues. Revenues consist primarily of product sales and revenues from services including project development, maintenance and support and leasing revenues, decreased by approximately NIS 30.1million to NIS 56.1 million from revenues of NIS 86.2 million in 2002, principally as the result of a decrease in sales by the educational sector of approximately NIS 26 million and a decrease of revenues of a proportionately consolidated company, in the amount of approximately NIS 3 million

Cost of Revenues. In 2003, our cost of revenues for products manufactured by us as well as products manufactured by others was 58% of revenues, compared with 48% of revenues in 2002. The increase in the cost of revenues rate resulted mainly from decline in sales volume.

Gross Profit. Our gross profit decreased by 47% to approximately NIS 23.5 million ($in 2003 from approximately NIS 44.7 million in 2002.

Operating expenses. In 2003, operating expenses totaled approximately NIS 39.8 million, compared with approximately NIS 40.6 million in 2002. Operating loss in 2003 was approximately NIS 16.3 million as compared with operating income of NIS 4.1 million in 2002.

Research and Development. Total research and development expenses decreased slightly, to approximately NIS 12.6 million in 2003 from approximately NIS 12.7 million in 2002. The investment in the development activities of MemCall decreased by approximately NIS 2.6 million to approximately NIS 3.4 million in 2003 (after deduction of NIS 0.7 million in grants from the Office of the Chief Scientist of the Israel Ministry of Industry and Trade, or Chief Scientist), compared with approximately NIS 6 million in 2002 (after deduction of a NIS 3 million in grants from the Chief Scientist). The research and development activities of the educational sector and for our e-learning products increased.

Marketing and Selling. Marketing and selling expenses decreased 11.3% to approximately NIS 12.6 million from approximately NIS 14.2 million in 2002, mainly as a result of decrease in the marketing and sales costs of the Educational Sector.

Administrative and General. Administrative and general expenses increased 6.8% to approximately NIS 14.6 million in 2003 from approximately NIS 13.6 million in 2002, mainly as a result of increased general and administrative expenses in Memcall.

Financial Income (Expenses,) Net. We incured financial expenses of approximately NIS 3.8 million in 2003, compared to financial expenses of approximately NIS 1.4 million in 2002. The financial expenses in 2003derived mainly from interest and differences in exchange rates of loans which were incurred for financing our building in Rosh Ha Ayin and the current operation of our company.

Other Income (Expenses). Other expenses amounted to approximately NIS 2 million) in 2003 compared with other income of approximately NIS 1.6 million in 2002, mainly due to an increase in net income from leasing space in our building.

Effective Corporate Tax Rate.

The statutory tax rate applicable to the Group s incomes is 35%. Tax expenditure was recorded in 2004, even though the Company had losses before tax for the period, mainly due to the reduction in deferred tax assets and also due to tax in respect of distributing a dividend from the profits of an Approved enterprise (see Note 24 to the Company s financial statements for December 31, 2004).

Impact of Inflation and Devaluation on Results of Operations, Liabilities and Assets

The U.S. dollar cost of our operations in Israel is influenced by the extent to which any increase in the rate of inflation in Israel is (or is not) offset, or is offset on a lagging basis, by the devaluation of the NIS in relation to the U.S. dollar. Unless offset by a devaluation of the NIS, inflation in Israel will have a negative effect on our profitability as we incur expenses, principally salaries and related personnel expenses, in NIS.

The following table sets forth, for the periods indicated, information with respect to the rate of inflation in Israel, the rate of devaluation of the NIS against the U.S. dollar, and the rate of inflation in Israel adjusted for such devaluation:

Year ended December 31,	Israeli price index	Israeli inflation rate %	Israeli devaluation rate %	Israeli inflation adjusted for devaluation %
2001	101.60	1.4	9.2	(7.8)
2002	108.20	6.5	7.3	(0.7)
2003	106.16	(1.9)	(7.6)	(9.5)
2004	107.44	1.2	(1.6)	(0.4)

A devaluation of the NIS in relation to the U.S. dollar has the effect of reducing the U.S. dollar amount of any of our expenses or liabilities which are payable in NIS (unless such expenses or payables are linked to the U.S. dollar). Such devaluation also has the effect of decreasing the U.S. dollar value of any asset which consists of NIS or receivables payable in NIS (unless such receivables are linked to the U.S. dollar). Conversely, any increase in the value of the NIS in relation to the U.S. dollar has the effect of increasing the U.S. dollar value of any unlinked NIS assets and the U.S. dollar amounts of any unlinked NIS liabilities and expenses.

Because exchange rates between the NIS and the U.S. dollar fluctuate continuously (albeit with a historically declining trend in the value of the NIS), exchange rate fluctuations and especially larger periodic devaluations will have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reported in our consolidated financial statements in current operations.

Conditions in Israel

We are incorporated under the laws of, and our principal executive offices and manufacturing and research and development facilities are located in, the State of Israel. Accordingly, we are directly affected by political, economic and military conditions in Israel.

Political Conditions

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. From September 2000 until early 2005, there was been a marked increase in violence, civil unrest and hostility, including armed clashes, between the State of Israel and the Palestinians, and acts of terror have been committed inside Israel and against Israeli targets in the West Bank and Gaza. Since the death of Yasser Arafat in 2005, low-level negotiations between Israel and Palestinian representatives have been reviewed. Nevertheless, there is no guarantee that the hostilities will not be renewed. Any renewal of these hostilities or any future armed conflict, political instability or violence in the region may have a negative effect on our business condition, harm our results of operations and adversely affect our share price. Furthermore, there are a number of countries that restrict business with Israel or Israeli companies. Restrictive laws or policies of those countries directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

In addition, some of our executive officers and employees in Israel are obligated to perform up to 36 days, depending on age, rank and position, of military reserve duty annually and are subject to being called for active duty under emergency circumstances. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

To date, no executive officer or key employee has been recruited for military service for any significant time period. Any further deterioration of the hostilities between Israel and the Palestinian Authority into a full-scale conflict might require more significant military reserve service by some of our employees, which may have a material adverse effect on our business.

Economic Conditions

In recent years Israel has been going through a period of recession in economic activity, resulting in low growth rates and growing unemployment. Our operations could be adversely affected if the economic conditions in Israel continue to deteriorate. In addition, due to significant economic measures proposed by the Israeli Government, there have been several general strikes and work stoppages in 2004, affecting all banks, airports and ports. These strikes have had an adverse effect on the Israeli economy and on business, including our ability to deliver products to our customers. Following the passing by the Israeli Parliament of laws to implement the economic measures, the Israeli trade unions have threatened further strikes or work-stoppages, and these may have a material adverse effect on the Israeli economy and on us.

Trade Agreements

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a signatory to the General Agreement on Tariffs and Trade, which provides for the reciprocal lowering of trade barriers among its members. In addition, Israel has been granted preferences under the Generalized System of Preferences from the U.S., Australia, Canada and Japan. These preferences allow Israel to export products covered by such programs either on a duty-free basis or at reduced tariffs.

Israel and the European Union Community concluded a Free Trade Agreement in July 1975 which confers certain advantages on Israeli exports to most European countries and obligates Israel to lower its tariffs on imports from these countries over a number of years. In 1985, Israel and the U.S. entered into an agreement to establish a free trade area. The free trade area has eliminated all tariff and specified non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the European Free Trade Association, known as EFTA, which includes Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland, established a free-trade zone between Israel and the EFTA nations. In November 1995, Israel entered into a new agreement with the European Union, which includes redefinement of rules of origin and other improvements, including providing for Israel to become a member of the research and technology programs of the European Union. In recent years, Israel has established commercial and trade relations with a number of other nations, including China, India, Russia, Turkey and other nations in Eastern Europe and Asia.

B. Liquidity and Capital Resources

Our cash, cash equivalents and securities totaled approximately NIS 7.1 million ($1.6 million) at December 31, 2004 as compared to approximately NIS 14.9 million at December 31, 2003. This decrease resulted mainly from our net loss in 2004.

At December 31, 2004, we had working capital of approximately NIS 2.4 million ($0.6 million) as compared to working capital of NIS 8.3 million at December 31, 2003. Our current ratio at December 31, 2004 was 1.08 compared to 1.23 at December 31, 2003. Our quick ratio at December 31, 2004 was 0.78 compared to 0.85 at December 31, 2003.

Cash flows provided by (used in) operating activities. In 2004, we had a deficit from operating activities of approximately NIS 6 million ($1.4 million) as compared to a deficit from current operations of approximately NIS 9.2 million in 2003.

Cash flows used in investment activities. In 2004, we invested approximately NIS 0.7 million ($0.2 million) in fixed assets as compared to approximately NIS 1.1 million in 2003.

Cash flows provided by financing activities. In 2004, we had a deficit from financing activities of approximately NIS 1.3 million ($0.3 million) as compared to a surplus of approximately NIS 0.2 million in 2003.

In July 1994, we entered into an agreement to build our headquarters in the Rosh Ha Ayin industrial park. As of December 31, 2004, we had invested a total of approximately NIS 38.5 million ($8.9 million) in our Rosh Ha Ayin building project and had outstanding bank debt related to the building project of approximately NIS 25.3 million ($5.9 million).

Our average amount of short-term bank credit was approximately NIS 15.6 million ($3.6 million) in 2004 as compared with approximately NIS 14.3 million at December 31, 2003 and our average amount of long-term bank credit was approximately NIS 17.3 million ($4 million) in 2004 as compared with approximately NIS 19.2 million at December 31, 2003.

Our financial requirements and our ability to meet them will depend to a large extent on our future financial performance. We believe we have sufficient capital resources to meet our operational requirements for 2005.

C. Research and Development, Patents and Licenses

In 2004 our Educational sector s research and development efforts were centered on our e-learning and distance learning line of products and the development of CNC machines. In addition, in 2004 YET continued the advanced stages of its development of our Advanced Servo Driver, the XtraDrive and the XDP. The following table reflects our research and development expenses during the three years ended December 31, 2004:

	Year Ended December 31, 2004			
	2002	2003	2004	2004
	Adjusted Amounts (NIS in thousands)		Reported Amounts (NIS in thousands)	Convenience translation into $
Total research and development costs	15,775	13,352	7,619	1,769
Less grants and participations	(3,020)	(701)		
Research and development, net	12,755	12,651	7,619	1,769

We have received grants from the Office of the Chief Scientist for certain of our research and development projects and have agreed to pay royalties on sales of the products developed from projects that were funded by these grants. In the event that development of a specific product in which the Office of the Chief Scientist participates is successful, we will become obligated to repay the grants received relating to the specific product through royalty payments at the rate of 2% to 4.6%, based on our sales revenues, up to an amount equal to 100% 150% of the grant received, linked to the U.S. dollar. In 2004 we paid approximately $0.1 million in royalties to the Office of the Chief Scientist. In 2004 we did not receive grants from the Office of the Chief Scientist.

In February 2004, we received a letter from the Office of the Chief Scientist, stating that we are required to pay it approximately $900,000 due to royalty payment differences for the years 1996-2002. In a response letter, we rejected this request, as having no basis in fact or law. There followed additional correspondence and we also met with representatives of the Office of the Chief Scientist. Since April, 2005, we have had no further contact with the Office of the Chief Scientist.

D. Trend Information

Governmental investments in infrastructure for the technological education declined both in the educational technology markets in the U.S. and in Israel as a result of the lack of economic resources made available to governmental entities generally and for educational institutions in particular. The decrease in funding for educational products reduced our potential sales.

The security and economic situation in Israel has also had an impact on our business. Due to the security situation partners and customers from abroad have lessened their visits to Israel and hesitate to continue developing their businesses in Israel. The recession in Israel and the decrease of the education budget have depressed the potential market for our products in Israel.

Cautionary Statement Regarding Forward-Looking Statements

The statements contained in this annual report that are not purely historical are forward-looking statements. Such forward-looking statements also include statements in this Item 5 Operating and Financial Review and Prospects . These statements involve risks and uncertainties and actual results could differ materially from such results discussed in these statements as a result of the risk factors set forth in this annual report. All forward-looking statements included in this annual report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements.

We have attempted to identify additional significant uncertainties and other factors affecting forward-looking statements in a Risk Factors section which appears in Item 3 Key Information.

E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our minimum contractual obligations and commercial commitments, including obligations of discontinued operations, as of December 31, 2004 and the effect we expect them to have on our liquidity and cash flow in future periods.

Contractual Obligations	Payments due by Period				
	Reported amounts NIS (in thousands)				
	Total	less than 1 year	1 3 Years	3 5 Years	more than 5 years
Long-term debt obligations	19,536	2,436	5,117	5,413	6,570
Capital (finance) lease obligations					
Operating lease obligations	664	465	199		
Purchase obligations*					
Other long-term liabilities reflected on our balance sheet under Israeli and U.S. GAAP	302				302
Total	20,502	2,901	5,316	5,413	6,872

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table lists our executive officers and directors:

Name	*Age*	*Position*
Rafael Aravot	51	Chairman of the Board, Chief Executive Officer and Director
Noam Kra-Oz	51	Co-General Manager and Director
Haim Schleifer	51	Co-General Manager and Director
Moshe Turner	52	Vice President
Joseph Biran	59	General Manager of Yaskawa Eshed Technology Ltd.
Hanan Eibushitz	49	Chief Financial Officer
Gideon Missulawin	65	Director
Menachem Zenziper	61	Director
Arie Kraus	49	Director
Alex Tal	59	Director
Amiram Dagan	51	Outside Director
Tami Gottlieb	48	Outside Director
Vicky Zamir-Sharon	33	Internal Corporate Attorney and Secretary

Messrs. Aravot, Kra-Oz, Schleifer, Missulawin, Zenziper, Kraus and Tal will serve as directors until our 2005 annual general meeting of shareholders. Mr. Dagan and Ms. Gotlieb were elected to serve as our outside directors from February 2002 at our annual general meeting of shareholders which took place on December 20, 2001. They served in such office pursuant to the provisions of the Israeli Companies Law for a three-year term until our 2004 annual general meeting of shareholders, where their term of office was renewed for a final additional three-year term, commencing February 2005.

Uri Sela ceased serving as our VP for sales and marketing in May 2005.

By a resolution passed at our annual general meeting of the shareholders on December 30, 2003, Mr. Aravot was authorized to continue serving in the joint position of chief executive officer and chairman of the Board of directors, for a final additional three year term, commencing on that date.

Rafael Aravot has been our Chief Executive Officer and Chairman of the Board since February 2001 and a director since 1982. Since 1999 Mr. Aravot has served as a member of our Financial Committee. Mr. Aravot is a director of Yaskawa Eshed Technology Ltd., MemCall Ltd. and MemCall LLC., Memcall Inc., Robotec Technologies Ltd., Computras Computerized Training Systems Ltd., Computras Marketing Training Systems(1988) Ltd., Intelitek training systems (1989) Ltd.; Burelco N.V. Mr. Aravot received an M.B.A. from Tel Aviv University and a B.Sc. degree in Mechanical Engineering from the Technion Israel Institute of Technology in Haifa.

Noam Kra-Oz has been our Joint Managing Director for Marketing since February 2001. He has also been a director since December 1983. Mr. Kra-Oz is the chairman of the board of directors of Intelitek Inc., and a director of Yaskawa Eshed Technology Ltd., YET US Inc., Robotec Technologies Ltd., Computras Computerized Training Systems Ltd., Intelitek training systems (1989) Ltd., Computras Marketing Training Systems (1988) Ltd. and Eshed Robotec B.V. Mr. Kra-Oz received a B.Sc. in Pharmacology from the Hebrew University of Jerusalem.

Haim Schleifer has been our Joint Managing Director R&D and e-Learning Dept. since February 2001. Mr. Schleifer is director of Intelitek Inc., Eshed Robotec B.V., MemCall Ltd. and MemCall LLC., Memcall Inc., Burelco N.V. Mr. Schleifer received an M.B.A. from Tel Aviv University and a B.Sc. in Electronic Engineering from the Technion Israel Institute of Technology in Haifa.

Moshe Turner has served as a vice president since April 2003 and a co-general manager of our Educational Sector since April 2000. From February 1995 he served as general manager of Robotec Technologies Ltd. Mr. Turner received an M.Sc. in Business Administration and a B.A. in Economics from Bar Ilan University.

Joseph Biran has served as our vice president research and development and operations since April 1994, and as general manager of our subsidiary Yaskawa Eshed Technology Ltd. since December 1996. Mr. Biran also serves as a director of our subsidiary YET US Inc. Mr. Biran received his B.Sc. in Mechanical Engineering from the Technion Institute of Technology in Haifa and also received an M.B.A. from Tel Aviv University.

Hanan Eibushitz has served as our chief financial officer since November 2002. Mr. Eibushitz also serves as chief financial officer of all our subsidiaries. From 1998 until 2002 he was vice president finance and chief financial officer of Elbit Vision Systems and served as the company s chief financial officer. Mr. Eibushitz holds a B.Sc. degree in industrial engineering and management and a master degree in industrial management from the Technion Israel Institute of Technology, Haifa.

Gideon Missulawin has been a director since 1983. He served as chairman of the board from December 1985 until February 2001. Since 1999 Mr. Missulawin has served as a member of our Financial Committee. Mr. Missulawin is a director of Vernon Investments Company Ltd. and Newcorp. Ltd. and a number of foreign companies, mainly in South Africa, some of which are family companies. Mr. Missulawin holds a B.Sc. in Chemical Engineering from the University of Witwatersrand in Johannesburg, South Africa and a Master of Business Leadership (MBL) from the University of South Africa. He undertook post graduate work at the Weitzman Institute of Science in Rehovot, Israel. He is a graduate member of the Institution of Chemical Engineers in England, a member of the South African Institute of Chemical Engineers and a Professional Engineer registered in 1969 with the South African Council for Professional Engineers.

Menachem Zenziper has been a director since 1983 and has served as a member of our Financial Committee since 2001. Mr. Zenziper is a director of Zenziper Company for Import of Grain and Fodder Ltd. Mr. Zenziper received a B.Sc. in Industrial Engineering and Master Degree in Management Science from the Technion Israel Institute of Technology, Haifa.

Arie Kraus has been a director since December 1983 and a director of MemCall Ltd. and MemCall LLC since 2003. Mr. Kraus served as our corporate secretary from August 1991 until June 1994. Until 1997 he was responsible for our new building project in Rosh Ha Ayin. Mr. Kraus received a B.Sc. in Production Engineering from Tel Aviv University.

Alex Tal has been a director since January 2001. Since 2003 Mr. Tal has served as a member of our audit committee. From July 2000 until June 2001, he has served as manager of our New-Ventures Sector. From 1996 until January 2000, Mr. Tal served as the Israeli Navy General Commander. From 1993 until 1995 he was the Representative of the Israeli Ministry of Defense and the Israeli Defense Forces