

ELTEK LTD  
Form 20-F/A  
May 29, 2013

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

FORM 20-F/A  
Amendment No.2

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

OR

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

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

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

Commission file number 0-28884

ELTEK LTD.

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

Israel

(Jurisdiction of incorporation or organization)

4 Drezner Street, Sgoola Industrial Zone, P.O. Box 159, Petach Tikva 49101, Israel  
(Address of principal executive offices)

Amnon Shemer, +972-3-9395025 (phone), +972-3- 9342584 (fax)  
4 Drezner Street, Sgoola Industrial Zone, P.O. Box 159, Petach Tikva 49101, Israel  
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 0.6 Par Value	NASDAQ Capital Market

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

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

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

6,610,107 Ordinary Shares, par value NIS 0.6 per share (as of December 31, 2012)

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

U.S. GAAP <input checked="" type="checkbox"/>	International Financial Reporting Standards as issued by the International Accounting Standards Board <input type="checkbox"/>	Other <input type="checkbox"/>
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If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☒

## EXPLANATORY NOTE

This Amendment No. 2 (the “Amendment”) to the Annual Report on Form 20-F of Eltek Ltd. (the “Company”) amends the Company’s Annual Report on Form 20-F for the year ended December 31, 2012 that was filed with the Securities and Exchange Commission (“SEC”) on April 30, 2013 (the “Original 20-F”), as amended by Amendment No. 1 to Original 20-F, filed with the SEC on May 28, 2013.

This Amendment does not reflect a change in the results of operations of the Company or in any information in the Original 20-F other than to correct a typographical error contained in the Report of Independent Registered Public Accounting Firm of Somekh Chaikin regarding the Company’s consolidated financial statements appearing in the Original 20-F (page F-1 of the financial statements). The report inadvertently showed the date April 29, 2013 instead of the date April 30, 2013, consistent with the manually signed report.

In order to comply with certain requirements of the SEC’s rules in connection with the filing of this Amendment No. 2, this Amendment No. 2 includes Item 18 “Financial Statements.” Consistent with the rules of the SEC, the certifications of the Company’s principal executive officer and principal financial officer as of the date of this Amendment No. 2 are attached as exhibits to this Amendment No. 2. The only change in these certifications from the certifications of the Company’s principal executive officer and principal financial officer filed as exhibits to the Original 20-F is their date.

This Amendment does not reflect events occurring after the filing of the Original 20-F or modify or update the disclosure contained therein in any way other than as required to reflect the amendments discussed above.

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ITEM 19. EXHIBITS

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Exhibit	Description
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1924, as amended.
13.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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Consolidated Financial Statements as of December 31, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of  
Eltek Ltd.

We have audited the accompanying consolidated balance sheets of Eltek Ltd. and its Subsidiaries (the “Company”) as of December 31, 2012 and 2011 and the related consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Somekh Chaikin  
Somekh Chaikin  
Certified Public Accountants (Isr.)  
Member firm of KPMG International

Tel-Aviv, Israel,  
April 30, 2013

Eltek Ltd. and its Subsidiaries

## Consolidated Balance Sheets

	Note	December 31 2012 \$ in thousands	2011
<b>Assets</b>			
<b>Current assets</b>			
Cash	2	1,935	892
Trade accounts receivable, net of allowance for doubtful accounts		6,662	8,885
Inventories	3	5,244	4,434
Prepaid expenses and other current assets		417	355
		14,258	14,566
Assets held for employees' severance benefits	9	47	39
Fixed assets, net	4	9,075	7,746
Goodwill	5	69	518
Total assets		23,449	22,869

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



Eltek Ltd. and its Subsidiaries

## Consolidated Balance Sheets

	Note	December 31 2012	2011
\$ in thousands			
Liabilities and shareholders' equity			
Current liabilities			
Short-term credit and current maturities of long-term debt	6	5,105	4,856
Accounts payable:			
Trade		6,110	6,456
Related parties	16	1,336	1,046
Other current liabilities	7	4,419	3,995
		16,970	16,353
Long-term liabilities			
Long-term debt, excluding current maturities	8	728	1,604
Employee severance benefits	9	215	150
Total long-term liabilities		943	1,754
Commitments and contingent liabilities	10		
Shareholders' equity	11		
Ordinary shares, NIS 0.6 par value			
Authorized 50,000,000 shares, issued and outstanding 6,610,107 shares as of December 31, 2012 and 2011		1,384	1,384
Additional paid-in capital		14,328	14,328
Cumulative foreign currency translation adjustments		2,713	2,622
Capital reserves		695	695
Accumulated deficit		(13,708 )	(14,398 )
Total Eltek Ltd. shareholders' equity		5,412	4,631
Non-controlling interest		124	131
Total equity		5,536	4,762
Total liabilities, shareholders' equity and non- controlling interest		23,449	22,869

/s/ Arie Reichart  
Arie Reichart

/s/ Amnon Shemer  
Amnon Shemer

/s/ Erez Meltzer  
Erez Meltzer

President, Chief Executive  
Officer

Vice President, Finance and  
Chief Financial Officer

Chairman of the Board of  
Directors

Date: April 30, 2013

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

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Eltek Ltd. and its Subsidiaries

## Consolidated Statements of Comprehensive Income (Loss)

	Note	Year ended December 31		
		2012	2011	2010
		\$ in thousands		
		(except loss per share data)		
Revenues	12	45,646	46,830	37,514
Cost of revenues	16B	(37,836 )	(38,101 )	(32,690 )
Gross profit		7,810	8,729	4,824
Operating expenses				
Selling, general and administrative expenses		(6,040 )	(6,155 )	(6,033 )
Impairment on goodwill		(481 )	-	-
Operating profit (loss)		1,289	2,574	(1,209 )
Financial expenses, net	13	(543 )	(740 )	(609 )
Other income, net		2	12	2
Profit (loss) before income tax expense		748	1,846	(1,816 )
Income tax expense	14	(52 )	(31 )	(19 )
Net profit (loss)		696	1,815	(1,835 )
Net (profit) loss attributable to non-controlling Interest		(6 )	31	113
Net profit (loss) attributable to Eltek Ltd.		690	1,846	(1,722 )
Basic and diluted net profit (loss) per ordinary share attributable to Eltek Ltd. shareholders		0.1	0.28	(0.26 )
Weighted average number of ordinary shares used to compute basic and diluted net profit (loss) per ordinary share attributable to Eltek Ltd. shareholders		6,610,107	6,610,107	6,610,107
Other comprehensive income (loss):				
Foreign currency translation adjustments		78	(377 )	20
Comprehensive income (loss)		774	1,438	(1,815 )
Comprehensive income (loss) attributable to non-controlling interest		(7 )	(44 )	(135 )
Comprehensive income (loss) attributable to Eltek Ltd.		781	1,482	(1,680 )

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

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Eltek Ltd. and its Subsidiaries

## Consolidated Statements of Changes in Shareholders' Equity

	Company's shareholders								
	Ordinary shares	Amount	Additional Paid-in capital	Accumulated Other comprehensive income	Capital reserves	Accumulated deficit	Equity attributed to Eltek Ltd. and Subsidiaries	Non- controlling interest	Total
				(\$ thousands, except number of shares)					
Balance as of January 1, 2010	6,610,107	1,384	14,328	2,944	695	(14,522 )	4,829	310	5,139
Changes during the year									
Foreign currency translation adjustments	-	-	-	42	-	-	42	(22 )	20
Net loss	-	-	-	-	-	(1,722 )	(1,722 )	(113 )	(1,835 )
Comprehensive loss	-	-	-	-	-	-	(1,680 )	(135 )	(1,815 )
Balance as of December 31, 2010	6,610,107	1,384	14,328	2,986	695	(16,244 )	3,149	175	3,324
Changes during the year									
Foreign currency translation adjustments	-	-	-	(364 )	-	-	(364 )	(13 )	(377 )
Net loss	-	-	-	-	-	1,846	1,846	(31 )	1,815
Comprehensive income ( loss)	-	-	-	-	-	-	1,482	(44 )	1,438
Balance as of December 31, 2011	6,610,107	1,384	14,328	2,622	695	(14,398 )	4,631	131	4,762

Changes during the year									
Foreign currency translation adjustments	-	-	-	91	-	-	91	(13 )	78
Net profit (loss)	-	-	-	-	-	690	690	6	696
Comprehensive income (loss)	-	-	-	-	-	-	781	(7 )	774
Balance as of December 31, 2012	6,610,107	1,384	14,328	2,713	695	(13,708 )	5,412	124	5,536

\* Less than one thousand.

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

Eltek Ltd. and its Subsidiaries

## Consolidated Statements of Cash Flows

	Year ended December 31		
	2012	2011	2010
	\$ thousands		
Cash flows from operating activities:			
Net profit (loss)	696	1,815	(1,835 )
Adjustments to reconcile net profit (loss) to net cash flows provided by operating activities:			
Depreciation and Amortization	2,253	2,091	2,054
Capital gain on disposal of fixed assets, net	-	-	(18 )
Revaluation of long term loans	25	58	49
Increase in employee severance benefits, net	53	68	45
Decrease (increase) in trade receivables	2,339	(2,016 )	(186 )
Decrease (increase) in other receivables and prepaid expenses	(58 )	(68 )	178
Increase in inventories	(670 )	(487 )	(138 )
Increase in income tax payable	-	8	-
Increase (decrease) in trade payables	(147 )	621	1,152
Increase in other liabilities and accrued expenses	281	324	203
Net cash provided by operating activities	4,772	2,414	1,504
Cash flows from investing activities:			
Purchase of fixed assets	(1,234 )	(882 )	(489 )
Proceeds from sale of fixed assets	-	-	38
Net cash used in investing activities	(1,234 )	(882 )	(451 )
Cash flows from financing activities:			
Increase (decrease) in short- term credit	(192 )	(802 )	355
Repayment of long-term loans	(1,149 )	(1,135 )	(1,222 )
Proceeds from long-term loans	-	474	452
Repayment of credit from fixed asset payables	(1,049 )	(539 )	(400 )
Net cash used in financing activities	(2,390 )	(2,002 )	(815 )
Effect of translation adjustments	(105 )	(151 )	17
Net increase (decrease) in cash	1,043	(621 )	255
Cash at beginning of the year	892	1,513	1,258
Cash at end of the year	1,935	892	1,513

Supplemental cash flow information:

Income tax paid	43	55	-
Interest paid	386	480	421
Non-cash activities:			
Purchase of fixed assets not yet paid	1,212	1,377	124

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



Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

Note 1 - Organization and Summary of Significant Accounting Policies

A. General

Eltek Ltd. ("the Parent") was incorporated in Israel in 1970, and the Parent's shares have been publicly traded on the NASDAQ Capital Market since 1997. Eltek Ltd. and its subsidiaries (see below) are collectively referred to as "the Company".

The Company manufactures, markets and sells custom made printed circuit boards ("PCBs"), including high density interconnect, flex-rigid and multi-layered boards. The principal markets of the Company are in Israel, Europe and North America.

The Company markets its product mainly to the medical technology, defense and aerospace, industrial, telecom and networking equipment, as well as to contract electronic manufacturers, among other industries, and its business is subject to numerous risks. The major risks include, but are not limited to, (1) the impact of currency exchange rates (mainly NIS/US\$), (2) the Company's success in implementing its sales and manufacturing plans, (3) the impact of competition from other companies, (4) the Company's ability to receive regulatory clearance or approval to market its products or changes in regulatory environment, (5) domestic and global economic conditions and industry conditions, and (6) compliance with environmental laws and regulations. Further, the Company's liquidity position, as well as its operating performance, may be negatively affected by other financial business factors, many of which are beyond its control.

Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

Note 1 - Organization and Summary of Significant Accounting Policies (cont'd)

A. General (cont'd)

Kubatronik Leiterplatten GmbH

In June 2002, the Parent established a wholly-owned subsidiary, EN-Eltek Netherlands 2002 B.V. ("EN-Eltek"), for the purpose of the acquisition of Kubatronik Leiterplatten GmbH ("Kubatronik").

On June 10, 2002, the Parent acquired 76% of the shares of Kubatronik for the consideration of € 2.6 million (\$2.4 million as of the date of acquisition). The acquisition resulted in the recognition of goodwill in the amount of €1.1 million (\$1 million as of the date of acquisition) - see Note 5. Goodwill has subsequently been impaired by approximately \$1 million and its balance as of December 31, 2012 is \$69.

Pursuant to the acquisition agreement, the seller has until December 31, 2014, (at which time the period is automatically extended for additional consecutive two-year periods unless otherwise notified in writing by either party upon at least six months prior notice) the right to require the Parent to purchase ("Put Option"), and the Parent has the right to require the seller to sell to the Parent ("Call Option") the seller's remaining 24% interest in Kubatronik. In May 2012, the seller exercised his option with respect to 3% of his remaining shares of Kubatronik for approximately Euro 69 (\$89) for such shares and reduced his share in Kubatronik from 24% to 21%. The exercise price for the seller's 21% interest in Kubatronik under the Put Option is Euro 483 (\$628), and the exercise price for the seller's remaining holdings in Kubatronik under the Call Option is Euro 513 (\$667). The fair value of the above options is calculated based on the Binomial model. Changes in fair value are recorded in the Consolidated Statement of Operations. See Note 15.

Eltek USA Inc.

In 2007, the Parent established a wholly-owned subsidiary, Eltek USA Inc. for the purpose of sales, promotion and marketing in the North American market. Eltek USA Inc. commenced operations in 2008.

Eltek Europe GmbH

In 2008, the Parent established a wholly-owned subsidiary, Eltek Europe GmbH for the purpose of sales, promotion and marketing to certain customers in Europe. Eltek Europe GmbH commenced operations in 2009.

Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

Note 1 - Organization and Summary of Significant Accounting Policies (cont'd)

B. Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

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

The Parent sells goods through its subsidiaries that function as distributors.

All intercompany transactions and balances were eliminated in consolidation.

C. Functional and reporting currency

The Parent's functional currency is the New Israeli Shekel ("NIS"). Transactions denominated in foreign currencies are translated into NIS using the prevailing exchange rates at the date of the transactions. Gains and losses from the translation of foreign currency transactions are recorded in financial income or expenses.

The Company's reporting currency is the U.S. dollar. Assets and liabilities are translated to the reporting currency using the exchange rate at the end of the year. Revenues and expenses are translated to the reporting currency using the average exchange rate for each quarter. Translation adjustments are reported separately as a component of accumulated other comprehensive income.

D. Translation of foreign entity operations

The financial statements of foreign subsidiaries are translated into the Parent's functional currency as follows:

1. Assets and liabilities are translated according to the exchange rate on the consolidated balance sheet date including goodwill arising from the acquisition of the subsidiary.
2. Income and expense items are translated according to the weighted average exchange rate on a quarterly basis.
3. The resulting exchange rate differences are classified as a separate item in shareholders' equity.

## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 1 - Organization and Summary of Significant Accounting Policies (cont'd)

## E. Exchange rates and linkage bases

1. Balances linked to the Israeli Consumer Price Index ("CPI") are recorded pursuant to contractual linkage terms of the specific assets and liabilities.

2. Details of the CPI and the representative exchange rates are as follows:

	Israeli CPI Points	Exchange rate of one US dollar NIS	Exchange rate of one Euro NIS
For the year ended:			
December 31, 2012	219.80	3.733	4.9206
December 31, 2011	216.26	3.821	4.938
December 31, 2010	211.67	3.549	4.738
	%	%	%
Changes during the year ended:			
December 31, 2012	1.6	(2.30 )	(0.35 )
December 31, 2011	2.2	7.66	4.22
December 31, 2010	2.7	(5.99 )	(12.94 )

## F. Use of estimates

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires the management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, allowance for doubtful accounts, valuation of derivatives, deferred tax assets, inventory, goodwill, put/call options, income tax uncertainties and other contingencies.

## G. Cash equivalents

Cash equivalents are highly-liquid investments which include short-term bank deposits with an original maturity of three months or less from deposit date and which are not restricted by a lien.

## H. Trade accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the Consolidated Statements of Cash Flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio.

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## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 1 - Organization and Summary of Significant Accounting Policies (cont'd)

## H. Trade accounts receivable (cont'd)

The allowance for doubtful accounts receivable is calculated on the basis of specific identification of customer balances. The allowance is determined based on management's estimate of the aged receivable balance considered uncollectible, based on historical experience, aging of the receivable and information available about specific customers, including their financial condition and volume of their operations.

The activity in the allowance for doubtful accounts for the three years ended December 31, 2012 is as follows:

	Year ended December 31		
	2012	2011	2010
	\$ thousands		
Opening balance	93	340	347
Additions during the year	1	14	10
Write off of allowance	-	(263 )	(20 )
Foreign currency translation adjustments	1	2	3
Closing balance	95	93	340

## I. Inventories

Inventories are recorded at the lower of cost or market value. Cost is determined on the weighted average basis for raw materials. For work in progress and finished goods, the cost is determined pursuant to calculation of accumulated actual direct and indirect costs.

## J. Assets held for employees' severance payments

Assets held for employees' severance payments represent contributions to insurance policies and deposits to a central severance pay fund, and are recorded at their current redemption value.

## K. Fixed assets

Fixed assets are stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Machinery and equipment	5-33
Leasehold improvements	6-14
Motor vehicles	15
Office furniture and equipment	6-33

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Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

## Note 1 - Organization and Summary of Significant Accounting Policies (cont'd)

## K. Fixed assets (cont'd)

Machinery and equipment purchased under capital lease arrangements are recorded at the present value of the minimum lease payments at lease inception. Such assets and leasehold improvements are depreciated and amortized respectively, using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Long-lived assets, such as property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

## L. Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, which provides an entity the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. The Company adopted this guidance in 2011.

If the two-step goodwill impairment test is required, first, the fair value of the reporting unit is compared with its carrying amount (including goodwill). If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed.

The Company performs its impairment review of goodwill on an annual basis and if a triggering event occurs between annual impairment tests. For 2012, the Company performed a qualitative assessment of goodwill based on a valuation for the Kubatronik, utilizing a forecast of expected cash inflows and cash outflows and determined that the fair value of Kubatronik was lower than its carrying value. As a result, the Company recorded an impairment loss of \$481 in 2012. Based on a similar qualitative assessment of Kubatronik, no impairment loss was recorded for 2011. See Note 5.



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Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

## Note 1 - Organization and Summary of Significant Accounting Policies (cont'd)

## M. Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in selling, general and administrative expense.

## N. Revenue recognition

The Company recognizes revenue upon shipment of the product and after the customer takes ownership and assumes risk of loss, collection of the corresponding receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. Commission income is accounted for on the accrual basis.

## O. Earnings (loss) per ordinary share

Diluted earnings per ordinary share calculation is similar to basic earnings per share except that the weighted average of ordinary shares outstanding is increased to include the number of additional ordinary shares that would have been outstanding if the outstanding options had been exercised, to the extent that these options had a diluted effect. The Company does not presently have such dilutive instruments.

## P. Derivative financial instruments

The Company utilizes derivative financial instruments principally to manage market risks and reduce its exposure resulting from fluctuations in foreign currency exchange rates. The Company holds put/call options with the minority shareholder of Kubatronik for the purchase/sale of the minority holding in Kubatronik (see Note 15). Derivatives and the put/call options are adjusted to fair value through income.

Changes in fair value are recognized in the consolidated statements of operations as a financing item.

The fair value of derivative financial instruments is determined on the basis of their market values or the quotations of financial institutions. In the absence of a market value or financial institution quotation the fair value is determined on the basis of a valuation model.



Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

## Note 1 - Organization and Summary of Significant Accounting Policies (cont'd)

## Q. Concentration of credit risk

Financial instruments that may subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. Cash and cash equivalents are deposited with major financial institutions in Israel, Europe and the United States.

The Company performs ongoing credit evaluations of the financial condition of its customers. The risk of collection associated with trade receivables is reduced by the large number and geographical dispersion of the Company's customer base, and the Company's policy of obtaining credit evaluations of the financial condition of certain customers, requiring collateral or security with respect to certain receivables, or purchase of insurance for certain other receivables.

## R. Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

## S. Fair value measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it is already required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. The ASU also requires additional disclosures for nonpublic

entities to provide quantitative information about significant unobservable inputs used for all Level 3 measurements and a description of the valuation process used. The provisions of the ASU are effective for annual or interim reporting periods beginning after December 15, 2011. The Company adopted the provisions of the ASU in 2012. The adoption of ASU 2011-04 did not have a material effect on the Company's consolidated financial statements. See Note 15.

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## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 1 - Organization and Summary of Significant Accounting Policies (cont'd)

## T. Recently issued accounting standards (cont'd)

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position, and to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under International Financial Reporting Standards (IFRS). The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. The Company does not expect the new standards to have a significant impact on its consolidated financial statements.

## Note 2 - Cash

	December 31	
	2012	2011
Denominated in U.S. dollars	431	204
Denominated in NIS	872	196
Denominated in Euro	632	492
	1,935	892

## Note 3 - Inventories

	December 31	
	2012	2011
Raw materials	2,078	2,185
Work-in-process	2,270	1,475
Finished products	896	774
	5,244	4,434

## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 4 - Fixed Assets, Net

	December 31	
	2012	2011
Machinery and equipment	36,424	34,678
Leasehold improvements	8,558	8,149
Motor vehicles	102	99
Office furniture and equipment	1,530	1,481
Fixed assets	46,614	44,407
Accumulated depreciation	(37,539 )	(36,661 )
Fixed assets less accumulated depreciation	9,075	7,746

Depreciation expense for the years ended December 31, 2012, 2011 and 2010 were \$1,772, \$2,091 and \$2,054 respectively.

## Note 5 - Goodwill

Changes in the carrying amount of goodwill for the years ended December 31, 2012 and 2011 are as follows:

	December 31	
	2012	2011
Balance at the beginning of the year	518	530
Increase due to increase in holding	20	-
Impairment on goodwill	(481 )	-
Effect of translation adjustments	12	(12 )
	69	518

## Note 6 - Short-Term Credit and Current Maturities of Long-Term Debt

## Banks

	Annual interest rate at December 31 2012 %	December 31	
		2012	2011
In NIS (linked to the Prime rate)	5.25 - 7.0	3,774	3,795

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In U.S. dollars	3.81 - 4.41	110	110
Current maturities of long-term debt from banks (Note 8)		1,221	951
		5,105	4,856

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## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 7 – Other Current Liabilities

	December 31	
	2012	2011
Accrued payroll and related benefits	1,177	1,064
Provision for vacation and other employee benefits	1,642	1,321
Net written put option (Note 1A)	497	366
Accrued expenses	859	1,022
Other liabilities	244	222
	4,419	3,995

## Note 8 - Long-Term Debt, Excluding Current Maturities

## Banks and others

	Annual interest rate at December 31 2012 %	December 31	
		2012	2011
Linkage terms			
U.S. dollar	1.88 - 5	1,133	950
NIS - linked to the CPI	4.5 - 6.5	-	57
Euro	2.17 - 3	95	554
NIS - linked to the Prime rate	P+0.9 - P+3	980	472
NIS - not linked	7.6 - 8.4	-	746
		2,208	2,779
Less - current maturities (banks and others)		(1,480 )	(1,175 )
		728	1,604

Minimum future payments at December 31, 2012 due under the long term debt is as follows:

	Long-Term Loan
First year	1,480
Second year	259
Third year and thereafter	469

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Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

## Note 8 - Long-Term Debt, Excluding Current Maturities (cont'd)

Long-term debt (excluding current maturities) includes capital leases in the amounts of \$650 and \$330 for the years ended December 31, 2012 and 2011, respectively.

For the year ended December 31, 2012, financial covenants in respect of the Company's credit facilities and long-term debt with one of the Company's banks require the Company to maintain all of the following financial covenants: (i) maintaining the greater of adjusted shareholders' equity of \$2.1 million or 9% of its consolidated total assets; (ii) EBITDA of \$3.0 million; and (iii) a debt service ratio of 1.5. For this purpose, shareholders' equity excludes leasehold improvements and certain intangible assets. Debt service ratio is defined as annual EBITDA divided by annual repayments of debt including interest. As of December 31, 2012, the Company was in compliance with such covenants. For the year ending December 31, 2013 the Company must meet the following: (i) maintaining the greater of adjusted shareholders' equity of \$2.6 million or 12% of its consolidated total assets; (ii) EBITDA of \$3.4 million; and (iii) a debt service ratio of 1.5. These amounts increase every year until December 31, 2016 when the Company must meet the following targets: (i) maintaining the greater of adjusted shareholders' equity of \$4.2 million or 20% of its consolidated total assets, (ii) EBITDA of \$4.0 million and (iii) debt service ratio of 1.5.

Financial covenants in respect of the Company's credit facilities and long-term debt with another bank require the Company to maintain the greater of shareholders' equity, excluding certain intangible assets and prepaid expenses (except insurance premiums), of NIS 10 million (\$2.6 million), or 11% of the Parent's total assets (on a non-consolidated basis). As of December 31, 2012, the Company was in compliance with such covenants. As part of the Company's discussions with this bank for obtaining new lines of credits, the financial covenants may be amended including a possible requirement of the Parent's subsidiaries, Eltek Europe GmbH and Eltek USA Inc. to pledge all their assets towards, and to sign a letter of guaranty in favor of the bank.

As to pledges securing the loans, see Note 10A.

## Note 9 - Employee Severance Benefits

Under Israeli law and labor agreements, the Parent is required to make severance and pension payments to their retired or dismissed employees and to employees leaving employment in certain other circumstances.

1. The Parent has an approval from the Israeli Ministry of Labor and Social Welfare, pursuant to the terms of Section 14 of the Israeli Severance Pay Law, 1963, according to which the current deposits in the pension fund and/or with the insurance company exempt it from any additional obligation to the employees for whom such depository payments were made.

## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 9 - Employee Severance Benefits (cont'd)

2. The Parent's employees participate in a pension plan or individual insurance policies are purchased. The Parent's liability for severance obligations for the employees employed for one year or more is discharged by making regular deposits with a pension fund or the insurance policies. Under Israeli law, there is no liability for severance pay in respect of employees who have not completed one year of employment. The amount deposited with the pension fund or the insurance policies is based on salary components as prescribed in the existing labor agreement. The custody and management of the amounts so deposited are independent of the Parent and accordingly, such amounts funded and related liabilities are not reflected in the balance sheet.

For the non-management employees, the Parent deposits 72% of its liability for severance obligations with a pension fund for such employees, and upon completion of one year of employment with the Parent, it makes a one-time deposit with the pension fund for the remaining balance.

In 2011, the Parent made a transfer of funds from a central severance fund to individual funds in the name of the employees for the unfunded liability in respect of the employees, which pursuant to Section 14 of the Israeli Severance Pay Law, it discharged its liability in respect of such employees severance pay. As a result, the balance of assets held for employees severance pay was reduced, and the liability was reduced accordingly.

3. Kubatronik owns an insurance policy and makes regular deposits with an insurance company for securing pension rights on behalf of one of its key employees. Such amounts deposited and the related liabilities are reflected in the consolidated balance sheet. In December 2012 the employee resigned from Kubatronik, however his pension entitlement up to the end of his employment with the Company continues.

In respect of its other employees, Kubatronik does not make any deposits for pension or retirement rights, since such deposits are not required under the German law.

4. Expenses recorded in respect of the unfunded liability for employee severance payments for the years ended December 31, 2012, 2011, and 2010 are \$57 \$102 and \$157, respectively.

## Note 10 - Commitments and Contingent Liabilities

## A.

## Pledges and guarantees

1. The Company has pledged certain items of its equipment and the rights to any insurance claims on such items to secure its indebtedness with banks, as well as floating liens on all of its remaining assets in favor of the banks.
2. The Company has pledged certain items of its equipment as a guarantee for the implementation of its benefited enterprise. The Company has determined that it is in compliance with the conditions of the approval (see Note 14A).
3. The Company has also pledged machines to secure its indebtedness to certain suppliers that provided financing to such equipment.

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## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 10 - Commitments and Contingent Liabilities (cont'd)

## B. Operating leases and other agreements

1. The premises occupied by the Parent and Kubatronik are leased under two operating agreements that expire in February 2017 and June 2014, respectively.
2. The Parent has signed several lease and maintenance agreements for production equipment with suppliers of equipment and software. Of such agreements, the main principal agreement expires in January 2015.
3. Several production machines are leased by Kubatronik under operating agreements which will expire in June 2014.
4. The Parent's motor vehicles are leased under operating lease agreements, mainly for three-year terms.
5. Minimum future payments at December 31, 2012 due under the above agreements over the next five years and thereafter are as follows:

	Premises leases	Other agreements
First year	1,077	704
Second year	1,025	476
Third year	975	293
Fourth year	975	212
Fifth year and thereafter	456	109
	4,508	1,794

Payments required under these agreements are charged to expense by the straight-line method over the periods of the respective leases.

Expenses recorded under these agreements for the years ended December 31, 2012, 2011, and 2010 were \$ 1,183, \$1,519, and \$1,330, respectively.

## C. Indemnification agreement

The Parent entered into an indemnification agreement with its directors and officers and undertook to enter into the same agreement with future directors and officers, for losses incurred by a director or officer. Such indemnification amount is limited to the lesser of \$2,000 or 25% of the Parent's shareholders' equity.

Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

## Note 10 - Commitments and Contingent Liabilities (cont'd)

## D. Contingent Liabilities

## Environmental Related Matters

On August 25, 2009, the Parent received a notice from the Petach Tikva Municipality claiming that random automatic wastewater samplings in proximity of its plant indicate high levels of metal concentrations which exceed the amounts permitted by law. The Municipality requested an explanation of such alleged violation and further informed the Parent that its environmental department had determined to initiate procedures against any plant that is not in compliance with the permitted concentrations. On September 16, 2009, the Parent sent a letter to the Municipality explaining that it had invested significant funds and resources each year in order to comply with all environmental legal requirements. The Parent further indicated that it had been and continued to be engaged in several projects to reduce salt and metal concentrations in its plant wastewater and that it constantly updates its procedures with respect to environmental matters. In addition, the Parent proposed to collaborate with the Municipality and conduct mutual tests to ensure maximum protection of the environment. To date, the Parent has not received a response from the Municipality to its letter dated September 16, 2009. If the Parent is found to be in violation of environmental laws, it could be liable for damages and costs of remedial actions and could also be subject to revocation of the permits necessary to conduct its business. Any such liability or revocation could have a material adverse effect on the Company's business, financial condition and results of operations.

On May 4, 2010, the Parent received legal notice from the Magistrate's Court that the Public Council for the Prevention of Noise and Pollution in Israel (the "Public Council") had filed a lawsuit against it and certain of its directors regarding several alleged environmental damages caused by its release of industrial waste water. On May 3, 2011, the Parent and its directors entered into a settlement agreement with the Public Council. The settlement agreement recognizes the significant improvement in the quality of the Parent's wastewater and the contribution of the Public Council to this effort. The Public Council undertook not to take any action (civil, criminal, or administrative) against the Parent and its directors or file any complaint with any regulatory agency regarding the matter for a one year period from the date on which the Court approves the settlement. The Parent undertook to pay the Public Council NIS 75 (\$22) (plus applicable V.A.T.) for its expenses. On May 4, 2011, the Court approved the settlement agreement and the settlement was given the effect of a judgment.

## Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

## Note 10 - Commitments and Contingent Liabilities (cont'd)

## D. Contingent Liabilities (cont'd)

## Employee Related Matters

Three lawsuits were filed against the Parent by an employee and two former employees regarding personal injuries that they allegedly had suffered during their employment with the Parent, seeking financial compensation of approximately \$330 for past damages and an additional amount for future lost income, pain and suffering in such amount as the Court may determine. Four other employees notified the Parent that they also allegedly suffered personal injuries during their employment. Of these four employees, one is seeking compensation of \$150 and the others did not state their claim amount. The Parent submitted the claims to its insurance company, which informed the Parent that it is reviewing the statements of claims without prejudicing its rights to deny coverage.

## Note 11 - Shareholders' Equity

Authorized, issued and outstanding share capital in historical terms is as follows:

	Authorized December 31 2011 and 2012	Issued and outstanding December 31 2012	December 31 2011
Number of shares:			
Ordinary shares of par value NIS 0.6 each	50,000,000	6,610,107	6,610,107
Amount in US\$			
Ordinary shares of par value NIS 0.6 each		1,384,318	1,384,318



## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 12 - Revenues

## A. Customers who accounted for over 10% of the total consolidated revenues:

	Year ended December 31					
	2012		2011		2010	
Customer A - Sales of manufactured products	17.2	%	14.9	%	13.7	%

## B. Revenues by geographic areas

	Year ended December 31		
	2012	2011	2010
Israel	21,965	22,866	17,182
Europe	11,583	13,400	10,119
North America	7,664	5,400	6,623
Rest of the world	4,434	5,164	3,590
	45,646	46,830	37,514

## C. Fixed assets, net by geographic areas

	Year ended December 31		
	2012	2011	2010
Israel	8,617	7,233	7,769
Europe	445	503	379
North America	13	10	14
	9,075	7,746	8,162

## Note 13 - Financial Expenses, Net

	Year ended December 31		
	2012	2011	2010
Interest and exchange rate expenses on long-term loans	126	166	159
Expenses on short-term credit and bank charges	281	464	342
Effect of exchange rate differences on other expenses and net loss (gain) from derivative instruments	137	110	109
Other financing expenses (income), net	(1 )	-	(1 )

The Company uses forward contracts and options to manage its foreign exchange rate exposures. Such transactions were not designated as hedging instruments for accounting purposes.

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Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

## Note 14 - Taxes on Income

## A. Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (the "Law")

1. One of the Parent's production facilities in Israel qualifies as a "benefited enterprise" in accordance with the Law, as amended in 2005, which provides certain tax benefits to investment programs of an "approved enterprise" or "benefited enterprise." The Parent's benefited enterprise was converted from a previously "approved enterprise" program pursuant to the approval of the Israel Tax Authority that the Parent received in September 2006. The period of tax benefits for the benefited enterprise has not yet commenced and will expire no later than 2016 (as further discussed below). In the past certain of the Parent's production facilities were granted approved enterprise status pursuant to the Law; however, the benefit periods for such approved enterprises expired in 2005.

A company that owns a benefited enterprise is eligible for governmental grants, but may elect to receive an alternative package comprised of tax benefits, referred to as the "alternative benefits track." The tax benefits of a benefited enterprise include lower tax rates or no tax depending on the area and the track chosen, lower tax rates on dividends and accelerated depreciation. In order to receive benefits in the grant track or the alternative benefit track, the industrial enterprise must contribute to the economic independence of the Israeli economy, be competitive and contribute to the gross local product in one of the manners stipulated in the Investment Law. Tax benefits would be available, subject to certain conditions (described below), to production facilities that generally derive more than 25% of their annual revenue from export, or that do not derive 75% or more of their annual revenue in a single market.

On September 20, 2006, the Parent received a pre-ruling from the Israeli Tax Authority confirming that its most recent investment program will be deemed a "benefited enterprise" instead of its former "approved enterprise" status. Pursuant to such pre-ruling, the former approved enterprise status of that investment plan was terminated by the Investment Center. The benefited enterprise status granted to the Parent's investment program provides for a tax exemption on undistributed earnings derived from the program for two years and a reduced tax rate for the remainder of the benefit period (see below). The benefit period with respect to such program has not yet commenced, and will expire no later than 2016.

If, (i) only a part of a company's taxable income is derived from an approved enterprise or a benefited enterprise, as in the Parent's case; or (ii) a company owns more than one approved enterprise or benefited enterprise, the resulting effective corporate tax rate of the company represents the weighted combination of the various applicable rates. A company owning a "mixed enterprise" (which is a company that derives income from one or more sources in addition to an approved enterprise or benefited enterprise) generally may not distribute a dividend that is attributable only to the approved enterprise or benefited enterprise.

Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

## Note 14 - Taxes on Income (cont'd)

## A. Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (the "Law") (cont'd)

Subject to certain provisions concerning income subject to the alternative benefits track (see below), any distributed dividends are deemed attributable to the entire enterprise, and the effective tax rate represents the weighted combination of the various applicable tax rates. A company may elect to attribute dividends distributed by it only to income not subject to the alternative benefits track.

The tax benefits available to benefited enterprises are: (1) benefited enterprise situated in zone A may choose between (a) limited corporate tax rate of 11.5%; and (b) tax exemption from corporate tax on undistributed income; (2) a benefited enterprises qualified as a "strategic investment" is entitled to a tax exemption; (3) benefited enterprises situated in zone B or elsewhere ("zone C") are entitled to tax exemption on undistributed income for six or two years, respectively, and to beneficial tax rate (25% or less in the case of a qualified foreign investor's company that is at least 49% owned by non-Israeli residents) for the remainder of the applicable period of benefits. The Parent's plant is located in zone C.

Dividends paid out of income derived from an approved enterprise or benefited enterprise (or out of dividends received from a company whose income is derived from an approved enterprise or benefited enterprise) are generally subject to withholding tax at the rate of 15% (deductible at source). The rate of 15% is limited to dividends and distributions out of income derived during the benefits period and actually paid at any time up to 12 years thereafter. A company which elects the alternative benefits track will be subject to corporate tax at the otherwise applicable rate of 25% (or lower in the case of a qualified foreign investor's company which is at least 49% owned by non-Israeli residents) in respect of the gross amount of the dividend if it pays a dividend out of income derived from its approved enterprise or benefited enterprise during the tax exemption period. Dividends paid to a qualifying non-resident out of the profits of a benefited enterprise subject to 11.5% corporate tax are subject to withholding tax at the rate of 4%.

## Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

## Note 14 - Taxes on Income (cont'd)

## A. Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (the "Law") (cont'd)

Subject to certain provisions concerning income subject to the alternative

The tax benefits available to a benefited enterprise relate only to taxable income attributable to that specific enterprise and are contingent upon the fulfillment of the conditions stipulated by the Law and its regulations and the terms of the pre-ruling that the Parent received from the Israeli Tax Authority. If the Parent fails to comply with these conditions, the tax and other benefits may be discontinued, in whole or in part, and the Parent might be required to pay the monetary equivalent of the tax benefits it received, plus Israeli consumer price index linkage differences and interest. A company that qualifies as a foreign investor's company is entitled to further tax benefits relating to its benefited enterprises. Subject to certain conditions, a foreign investor company is a company more than 25% of whose share capital (in terms of shares, rights to profits, voting and appointment of directors), and of whose combined share and loan capital, is owned, directly or indirectly, by persons who are not residents of Israel. Such a company with a foreign investment of over 25% will be eligible for an extension of the period of tax benefits for its approved and benefited enterprises (up to ten years) and further tax benefits (a reduced corporate tax rate of 10%-20%) should the foreign investment reach or exceed 49%. The rate of 15% applicable to dividends is effective for an unlimited period. No assurance can be given that the Parent currently qualifies or will qualify in the future as a foreign investor's company.

The termination or substantial reduction of any of the benefits available under the Law could have a material adverse effect on the Parent's future investments in Israel, and could adversely affect the Parent's results of operations and financial condition.

## 2.

## Amendment to the Law

In December 2010, the Israeli Parliament passed the Law for Economic Efficiency for 2011 and 2012 (Amended Legislation), 2011, which prescribes, among other things, amendments to the Law, effective as of January 1, 2011. The amendment introduced new benefits for income generated by a "Preferred Company" through its Preferred Enterprise (as such term is defined in the Law). The new tax benefits (described below) would be available, subject to certain conditions, to production facilities that generally derive more than 25% of their annual revenue from export, or that do not derive 75% or more of their annual revenue in a single market. A "Preferred Company" is defined in the amendment as either (i) a company incorporated in Israel and not wholly-owned by the government or (ii) a partnership (a) that was registered under the Israeli Partnerships Ordinance and (b) all of its partners are companies incorporated in Israel, but not all of them are wholly-owned by the government and such companies or partnerships have, among other conditions, Preferred Enterprise status and are controlled and managed from Israel.

Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

Note 14 - Taxes on Income (cont'd)

A. Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (the "Law") (cont'd)

2. Amendment to the Law (cont'd)

Subject to certain provisions concerning income subject to the alternative.

In accordance with the amendment, a Preferred Company is entitled to a reduced corporate tax rate of 15% with respect to income derived by its Preferred Enterprise in 2011-2012, unless it is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate will be reduced to 12.5% and 7%, respectively, in 2013-2014 and to 12% and 6% in 2015 and thereafter, respectively.

Under the amendment, dividends distributed out of income attributed to a Preferred Enterprise are subject to withholding tax at source at the rate of 15% (or lower, under an applicable tax treaty). However, upon the distribution of a dividend to an Israeli company, no withholding tax will be remitted.

The amendment applies to income generated as of January 1, 2011. Under the transitional orders of the amendment, the Parent may decide to irrevocably implement the amendment to the Law while waiving benefits provided under the Law as in effect prior to the amendment or to remain subject to the Law as in effect prior to the amendment. The Parent may elect to implement the amendment at any time. The Parent is currently examining the possible effect of the amendment on its financial statements, if at all, and has not yet decided whether to apply the amendment.

B. Amendments to the Income Tax Ordinance

On December 5, 2011 the Knesset approved the Law to Change the Tax Burden (Legislative Amendments) - 2011. According to the law the tax reduction that was provided in the Economic Efficiency Law, as aforementioned, will be cancelled and the company tax rate will be 25% as from 2012. The change in the tax rates had no material effect on the financial statements.

Notes to the Consolidated Financial Statements

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(All amounts in thousands of \$, except where otherwise stated)

## Note 14 - Taxes on Income (cont'd)

## C. Taxation under Inflationary Conditions

The Israeli Income Tax Law (Inflationary Adjustments) - 1985 (hereinafter – "the Inflationary Adjustments Law") is effective from the 1985 tax year. The Inflationary Adjustments Law introduced the concept of measurement of results for tax purposes on a real (net of inflation) basis. The various adjustments required by the Inflationary Adjustments Law are designed to achieve taxation of income on a real basis. However, the earnings adjusted according to the Inflationary Adjustments Law are not identical to the earnings reported according to the accounting standards. As a result, differences arise between the reported income in the financial statements and the adjusted income for tax purposes.

On February 26, 2008, the Israeli Income Tax Law (Inflationary Adjustments) (Amendment No. 20) (Restriction of Period of Application) – 2008 ("the Amendment") was passed by the Knesset. According to the Amendment, the Inflationary Adjustments Law is no longer applicable subsequent to the 2007 tax year, except for the transitional provisions whose objectives are to prevent distortion of the income tax calculations.

In addition, according to the Amendment, commencing in the 2008 tax year, the adjustment of income for the effects of inflation for tax purposes will no longer be calculated. Additionally, depreciation on protected assets and tax loss carryforwards will no longer be linked to the CPI, subsequent to the 2007 tax year, and the balances that have been linked to the CPI through the end of the 2007 tax year, will be used going forward.

## D. Tax loss carryforwards

As of December 31, 2012, the Parent's tax loss carryforwards were approximately \$14.5 million and Kubatronik's tax loss carryforwards were Euro 973,000 (\$1.3 million) for corporate tax and Euro 1.1 million (\$1.4 million) for municipal corporate tax.

The Parent and Kubatronik's tax loss carryforwards do not have expiration dates.

## E. Income tax assessments

In Israel, the Parent has received final tax assessments through the 1995 tax year. Assessments through the 2007 tax year are considered final due to statute of limitations.

Kubatronik and Eltek Europe have received final tax assessments through the 2010 tax year.

The Company's other foreign subsidiaries have not yet received any final tax assessments since their incorporation.

The Parent files its income tax return in Israel, Kubatronik and Eltek Europe file their income tax returns in Germany and Eltek USA files its income tax return in the United States. The Israeli tax returns of the Parent may be audited by the Israeli Tax Authorities for the tax years beginning in 2008. The tax returns of Kubatronik and Eltek Europe remain subject to audit for the tax years beginning in 2011, and the tax returns of Eltek USA remain subject to audit

for the tax years beginning in 2009.

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## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 14 - Taxes on Income (cont'd)

## F. Profit (Loss) before income tax expense included in the statement of operations

	Year ended December 31 2012	Year ended December 31 2011	Year ended December 31 2010
Profit (loss) before income tax			
expense: Israel	495	1,867	(1,460 )
Foreign jurisdictions	253	(21 )	(356 )
Total	748	1,846	(1,816 )

## G. Reconciliation of the theoretical income tax expense to the actual income tax expense

A reconciliation of the theoretical income tax expense (benefit), assuming all income (loss) is taxable at the statutory rates applicable in Israel, and the actual income tax expense (benefit), is as follows:

	Year ended December 31 2012	Year ended December 31 2011	Year ended December 31 2010
Profit (loss) before income taxes as reported in the consolidated statements of operations	748	1,846	(1,816 )
Statutory tax rates	25 %	24 %	25 %
Theoretical tax benefit calculated	187	443	(454 )
Differences between the definition of capital and assets for tax purposes, goodwill impairment and other	14	14	(44 )
Change in valuation allowance	(148 )	669	500
Effective change in corporate tax rates	-	(1,103 )	-
Foreign tax rate differential in subsidiaries	(1 )	8	17
Total	(135 )	(412 )	473

Income tax expense	52	31	19
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## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 14 - Taxes on Income (cont'd)

## H. Deferred tax assets and liabilities

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

	December 31 2012	December 31 2011
Deferred tax assets:		
Tax loss carryforwards (in Israel)	3,885	4,071
Tax loss carryforwards (outside Israel)	485	484
Severance benefits	17	16
Provision for vacation pay	363	315
Allowance for doubtful accounts	24	23
Total gross deferred tax assets	4,774	4,909
Less valuation allowance	(4,052 )	(4,200 )
Net deferred tax assets	722	709
Deferred tax liabilities:		
Fixed assets - differences in depreciation	(722 )	(709 )
Total gross deferred tax liabilities	(722 )	(709 )
Net deferred tax assets	-	-

Despite the Company's accumulated profits in Israel during the years ended December 31, 2012 and 2011, the Company recorded a full valuation allowance for deferred tax assets with respect to its net operating losses generated in Israel due to uncertainty about its ability to utilize such losses in the foreseeable future. Such uncertainty is primarily due to fluctuations of the NIS against the U.S. dollar, which may have an adverse impact on the Company's financial results in such periods, the concentrated risk of a high volume of revenue from small number of customers, the fluctuations of the PCB industry and the Company's history of losses. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities, projected taxable income, and tax-planning strategies in making this assessment.

The valuation allowance for deferred tax assets as of December 31, 2012 and 2011, was \$4,052 and \$4,200, respectively. The net change in the total valuation allowance for each of the years ended December 31, 2012, 2011 and 2010, was an increase (decrease) of \$(148), \$669 and \$500, respectively.

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## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 14 - Taxes on Income (cont'd)

## I. Accounting for uncertainty in income taxes

For the twelve-month periods ended December 31, 2012, 2011 and 2010, the Company did not have any unrecognized tax benefits and thus, no interest and penalties related to unrecognized tax benefits were recognized. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next twelve months.

## Note 15 - Financial Instruments and Risk Management

The Company measures its long-term bank loans, net written put option (see Note 1A) at fair value. In accordance with ASC 820-10, the Company's long-term bank loans and foreign currency derivative contracts are classified within Level 2, because they are valued utilizing market observable inputs. The net written put option is classified within Level 3 because it is valued using a Binomial model which utilizes significant inputs that are unobservable in the market such as expected stock price volatility, risk-free interest rate and the dividend yield, and remaining period of time the options will be outstanding before they expire.

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011, aggregated by the level in the fair-value hierarchy within which those measurements fall:

	December 31, 2012	December 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Carrying Amount	Fair value			
<b>Liabilities :</b>					
Long-term debt	1,296	1,271	-	1,271	-
Net written put option	497	497	-	-	497
<b>Total</b>	<b>1,793</b>	<b>1,768</b>	<b>-</b>	<b>1,271</b>	<b>497</b>

## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 15 - Financial Instruments and Risk Management (cont'd)

	December 31, 2011	December 31, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Carrying Amount		Fair value			
<b>Liabilities :</b>					
Long-term debt	2,226	2,102	-	2,102	-
Net written put option	366	366	-	-	366
Total	2,592	2,468	-	2,102	366

In addition to the above, the Company's financial instruments at December 31, 2012 and 2011, consisted of cash and cash equivalents, bank deposits, trade and other accounts receivable, other current assets, short-term credit provided by financial institutions, and trade and other payables. The carrying amounts of all the aforementioned financial instruments, at face value or cost plus accrued interest, approximate fair value due to the short maturity of these instruments.

The changes in the Company's liabilities measured at fair value using significant unobservable inputs (Level 3), during the years ended December 31, 2012 and 2011 were changes in the fair value of the net written put option charged to financial expense in the Consolidated Statement of Comprehensive Income (Loss) of \$135 and \$79, respectively, and translation adjustments included in financial income in the Consolidated Statement of Comprehensive Income (Loss) \$(9) and \$12, respectively.

These Consolidated Financial Statements do not include any nonrecurring fair value measurements relating to assets and liabilities for which the Company has adopted the provisions of ASC Topic 820.

## Note 16 - Related Party Balances and Transactions

The Company carries out transactions with related party as detailed below. The Company's principal shareholder is also the principal shareholder of an affiliated supplier. In December 2012, a receiver was appointed for such supplier. The Company's transactions with related party are carried out on an arm's-length basis.

## A. Balances with related parties

December 31

	2012	2011
Trade accounts payable	1,336	1,046

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Eltek Ltd. and its Subsidiaries

## Notes to the Consolidated Financial Statements

(All amounts in thousands of \$, except where otherwise stated)

## Note 16 - Related Party Balances and Transactions (cont'd)

## B. Transactions with related parties

	Year ended December 31		
	2012	2011	2010
Cost of revenues (*)	3,287	2,674	1,963

(\*) The Company's purchases from such supplier accounted for 24.5%, 18.4% and 16.1% of its raw material costs in 2012, 2011 and 2010, respectively.

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S I G N A T U R E S

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

ELTEK LTD.

By: /s/ Arie Reichart  
Name: Arie Reichart  
Title: President and Chief Executive Officer

By: /s/ Amnon Shemer  
Name: Amnon Shemer  
Title: Vice President, Finance and Chief Financial Officer

Dated: May 29, 2013