

ELTEK LTD
Form 20-F
May 13, 2010

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

FORM 20-F

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, 2009

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)

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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)

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

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| 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, 2009)

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

International Financial
Reporting Standards as
issued by the International
Accounting Standards
Board

Other

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

This Annual Report on Form 20-F is incorporated by reference into our Registration Statement on Form S-8, File No. 333-123559.

INTRODUCTION

Eltek Ltd., incorporated in 1970 under the laws of the State of Israel, manufactures, markets and sells custom made printed circuit boards, or PCBs, including high density interconnect, or HDI, multi-layered and flex-rigid boards for the medical technology, defense and aerospace, industrial equipment and telecommunications industries. Our principal customers include manufacturers of medical, defense, aerospace, industrial, telecom and networking equipment, as well as contract electronic manufacturers. Since our initial public offering in January 1997, our ordinary shares have been listed on the NASDAQ Stock Market (symbol: ELTK) and are presently listed on the NASDAQ Capital Market. In June 2002, we acquired our majority-owned European manufacturing and marketing subsidiary, Kubatronik Leiterplatten GmbH, or Kubatronik, located in Geislingen, Germany. In July 2007, we established Eltek USA Inc., a wholly-owned subsidiary incorporated in Delaware, to manage our sales and marketing in the North American market. In December 2008, we established Eltek Europe GmbH, a wholly-owned subsidiary organized in Germany, to manage our sales and marketing activities for certain European customers. As used in this annual report, the terms “we,” “us” and “our” mean Eltek Ltd. and its subsidiaries, unless otherwise indicated.

Our functional currency is New Israeli Shekel, or NIS, while our reporting currency is the U.S. dollar. Our consolidated financial statements appearing in this annual report are prepared in accordance with U.S. GAAP and our reporting currency is the U.S. dollar. The consolidated financial statements appearing in this annual report are translated into U.S. dollars at the representative rate of exchange under the current rate method. Under such method, the income statement and cash flows statement items for each year (or period) stated in this report are translated into U.S. dollars using the average exchange rates in effect at each period presented, and assets and liabilities for each year (or period) are translated using the exchange rate as of December 31 of each year (\$1.00= NIS 3.775 as of December 31, 2009, as published by the Bank of Israel), except for equity accounts, which are translated using the rates in effect at the date of the transactions. All resulting exchange differences that do not affect our earnings are reported in the accumulated other comprehensive income as a separate component of shareholders' equity.

All references in this annual report to “dollars” or “\$” are to U.S. dollars and all references in this annual report to “NIS” are to New Israeli Shekels.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description of its terms.

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

Factors section that appears in Item 3.D. “Key Information- Risk Factors.”

iii

TABLE OF CONTENTS

| | Page No. |
|--|----------|
| <u>PART I</u> | 1 |
| <u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u> | 1 |
| <u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u> | 1 |
| <u>ITEM 3. KEY INFORMATION</u> | 1 |
| A. Selected Financial Data | 1 |
| B. Capitalization and Indebtedness | 4 |
| C. Reasons for the Offer and Use of Proceeds | 4 |
| D. Risk Factors | 4 |
| <u>ITEM 4. INFORMATION ON THE COMPANY</u> | 14 |
| A. History and Development of the Company | 14 |
| B. Business Overview | 15 |
| C. Organizational Structure | 19 |
| D. Property, Plants and Equipment | 19 |
| <u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u> | 20 |
| <u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u> | 20 |
| A. Operating Results | 20 |
| B. Liquidity and Capital Resources | 27 |
| C. Research and Development, Patents and Licenses | 29 |
| D. Trend Information | 30 |
| E. Off-Balance Sheet Arrangements | 30 |
| F. Tabular Disclosure of Contractual Obligations | 30 |
| <u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u> | 31 |
| A. Directors and Senior Management | 31 |
| B. Compensation | 35 |
| C. Board Practices | 35 |
| D. Employees | 41 |
| E. Share Ownership | 42 |
| <u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u> | 44 |
| A. Major Shareholders | 44 |
| B. Related Party Transactions | 46 |
| C. Interests of Experts and Counsel | 46 |
| <u>ITEM 8. FINANCIAL INFORMATION</u> | 46 |
| A. Consolidated Statements and Other Financial Information | 46 |
| B. Significant Changes | 47 |
| <u>ITEM 9. THE OFFER AND LISTING</u> | 47 |
| A. Offer and Listing Details | 47 |
| B. Plan of Distribution | 48 |
| C. Markets | 48 |

| | | |
|----|----------------------|----|
| D. | Selling Shareholders | 48 |
| E. | Dilution | 49 |
| F. | Expense of the Issue | 49 |

| | | |
|------------------|---|----|
| Page No. | | |
| <u>ITEM 10.</u> | <u>ADDITIONAL INFORMATION</u> | 49 |
| A. | Share Capital | 49 |
| B. | Memorandum and Articles of Association | 49 |
| C. | Material Contracts | 52 |
| D. | Exchange Controls | 53 |
| E. | Taxation | 53 |
| F. | Dividends and Paying Agents | 61 |
| G. | Statement by Experts | 61 |
| H. | Documents on Display | 62 |
| I. | Subsidiary Information | 62 |
| <u>ITEM 11.</u> | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS</u> | 62 |
| <u>ITEM 12.</u> | <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u> | 63 |
| <u>PART II</u> | | 63 |
| <u>ITEM 13.</u> | <u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u> | 63 |
| <u>ITEM 14.</u> | <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u> | 63 |
| <u>ITEM 15.</u> | <u>CONTROLS AND PROCEDURES</u> | 63 |
| <u>ITEM 16.</u> | <u>[RESERVED]</u> | 64 |
| <u>ITEM 16A.</u> | <u>AUDIT COMMITTEE FINANCIAL EXPERT</u> | 64 |
| <u>ITEM 16B.</u> | <u>CODE OF ETHICS</u> | 64 |
| <u>ITEM 16C.</u> | <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u> | 65 |
| <u>ITEM 16D.</u> | <u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u> | 65 |
| <u>ITEM 16E.</u> | <u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u> | 65 |
| <u>ITEM 16F.</u> | <u>CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT</u> | 65 |
| <u>ITEM 16G.</u> | <u>CORPORATE GOVERNANCE</u> | 65 |
| <u>ITEM 17.</u> | <u>FINANCIAL STATEMENTS</u> | 66 |
| <u>ITEM 18.</u> | <u>FINANCIAL STATEMENTS</u> | 66 |
| <u>ITEM 19.</u> | <u>EXHIBITS</u> | 66 |

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

Effective as of January 1, 2007, our consolidated financial statements are prepared in accordance with U.S. GAAP and our reporting currency is the U.S. dollar. For periods prior to December 31, 2006, our consolidated financial statements were prepared in NIS, and in accordance with generally accepted accounting principles in Israel with a reconciliation to U.S. GAAP. The consolidated financial statements for prior periods presented have been restated and are presented in accordance with U.S. GAAP.

The selected financial data, set forth in the table below, have been derived from our audited historical financial statements for each of the years from 2005 to 2009. The selected consolidated financial data as of December 31, 2009 and 2008 and for each of the three years ended December 31, 2009, 2008 and 2007 have been prepared in accordance with U.S. GAAP, and are derived from our audited consolidated financial statements and accompanying notes included in Item 18, "Financial Statements." The selected consolidated financial data as of December 31, 2006 and for the years ended December 31, 2006 and 2005 have been prepared in accordance with U.S. GAAP, and have been derived from our previously published audited consolidated financial statements, which are not included in this annual report. The selected consolidated financial data as of December 31, 2005 have been prepared in accordance with Israeli GAAP, which were reconciled to U.S GAAP for presentation purposes in the following table to conform to the presentation of the subsequent years, and have been derived from our previously published audited consolidated financial statements, which are not included in this annual report. The selected financial data set forth below should be read in conjunction with and are qualified entirely by reference to Item 5. "Operating and Financial Review and Prospects" and our consolidated financial statements and notes thereto included elsewhere in this annual report.

CONSOLIDATED STATEMENT OF OPERATIONS DATA:

| | Year Ended December 31, | | | | |
|---|---|-----------|-----------|-----------|-----------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| | (\$ and share data in thousands, except per share data) | | | | |
| Revenues | \$36,442 | \$43,138 | \$37,476 | \$39,045 | \$32,177 |
| Cost of revenues | (30,882) | (37,282) | (31,879) | (30,557) | (25,638) |
| Gross profit | 5,560 | 5,856 | 5,597 | 8,488 | 6,539 |
| Research and development (expenses) income, net | -- | 100 | (74) | (154) | (144) |
| Selling, general and administrative expenses | (6,016) | (7,199) | (5,683) | (5,580) | (4,409) |
| Impairment on goodwill | -- | (379) | -- | (473) | -- |
| Total operating expenses | (6,016) | (7,478) | (5,757) | (6,207) | (4,553) |
| Operating profit (loss) | (456) | (1,622) | (160) | 2,281 | 1,986 |
| Financial expenses, net | (424) | (826) | (145) | (538) | (592) |
| Other income, net | 4 | 1 | 8 | 5 | 23 |
| Profit (loss) before income tax expense | (876) | (2,447) | (297) | 1,748 | 1,417 |
| Income tax expense | (34) | -- | -- | (158) | -- |
| Net profit (loss) | (910) | (2,447) | (297) | 1,590 | 1,417 |
| Net profit (loss) attributable to noncontrolling interest | 30 | 1 | (4) | 60 | 49 |
| Net profit (loss) attributable to Eltek Ltd. shareholders | (880) | (2,446) | (301) | 1,650 | 1,466 |
| Basic net profit (loss) per ordinary share attributable to Eltek Ltd. shareholders | (0.13) | (0.37) | (0.05) | 0.29 | 0.26 |
| Diluted net profit (loss) per ordinary share attributable to Eltek Ltd. shareholders | (0.13) | (0.37) | (0.05) | 0.24 | 0.22 |
| Weighted average number of ordinary shares used to compute basic net profit (loss) per ordinary share | 6,610 | 6,610 | 6,247 | 5,617 | 5,575 |
| Weighted average number of ordinary shares used to compute diluted net profit (loss) per ordinary share | 6,610 | 6,610 | 6,247 | 6,954 | 6,785 |

CONSOLIDATED BALANCE SHEETS DATA:

| | 2009 | 2008 | As at December 31, 2007 | 2006 | 2005 |
|--|----------------------------------|----------|----------------------------|--------|--------|
| | (\$ and share data in thousands) | | | | |
| Working capital (deficit) | (1,984) | (1,881) | 733 | 1,689 | (983) |
| Total assets | 23,771 | 25,453 | 29,182 | 24,108 | 20,012 |
| Long-term liabilities | 4,057 | 3,970 | 5,631 | 4,255 | 2,635 |
| Total Eltek Ltd. shareholders' equity | 4,829 | 5,629 | 8,074 | 7,275 | 4,929 |
| Number of issued and outstanding shares | 6,610 | 6,610 | 6,610 | 5,624 | 5,603 |

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. Our business, prospects, financial condition and results of operations could be adversely affected due to any of the following risks. In that case, the value of our ordinary shares could decline, and you could lose all or part of your investment.

Risks Relating to Our Business and Market

We have had a history of operating losses and may not be able to achieve and sustain profitable operations. We may not have sufficient resources to fund our working capital requirements in the future.

We incurred operating losses in the last three fiscal years and we may not be able to achieve and sustain profitable operations in the future. Even if we return to profitability, our future net income may not offset our cumulative losses. Our losses in 2009 are primarily attributable to the decline in revenues, mainly as a result of the global economic crisis. Our losses in 2008 are primarily attributable to the depreciation of the U.S. dollar against the NIS, which adversely affected the NIS value of our U.S. dollar denominated revenues, the decline in sales in the last quarter of 2008 arising from the reduction in capital spending by our customers in reaction to the turmoil in the global marketplace and a goodwill impairment loss that we incurred in such period. In past years, our losses were also attributable to increased costs for raw materials, increased energy costs, increased other manufacturing expenses and competition from other manufacturers. To the extent that we continue to incur operating losses, we may not have sufficient working capital to fund our operations in the future. If we do not generate sufficient cash from operations, we will be required to obtain additional financing or reduce our level of expenditure. Such financing may not be available in the future, or, if available, may not be on terms favorable to us. If adequate funds are not available to us, our business, and results of operations and financial condition will be materially and adversely affected.

Continuing unfavorable national and global economic conditions could have a material adverse effect on our business, operating results and financial condition.

The recent crisis in the financial and credit markets in the United States, Europe and Asia led to a global economic slowdown, with the economies of the United States and Europe showing significant signs of weakness. If the economies in any part of the world weaken further, the demand for our products may decrease as a result of continued constraints on capital spending by our customers. In addition, this could result in longer sales cycles, slower acceptance of new products and increased competition for our products, which in turn could cause us to reduce prices for our products resulting in reduced gross margins. Furthermore, the value of our investment in Kubatronik may decrease further as a result of the weak economy and as a result, we may record additional goodwill impairment losses in the future. Any of these events would likely harm our business, operating results and financial condition. If global economic and market conditions, or economic conditions in the United States or Europe or other key markets deteriorate further, our business, operating results and financial condition may be materially adversely affected.

Rapid changes in the Israeli and international electronics industries and recessionary pressure may adversely affect our business.

Our principal customers include manufacturers of medical, defense, aerospace, industrial, telecom and networking equipment, as well as contract electronic manufacturers. The electronics industry is subject to rapid technological changes and products obsolescence. Discontinuance or modification of products containing printed circuit boards, or PCBs, manufactured by us could have a material adverse effect on us. In addition, the electronics industry is subject to sharp economic cycles. Increased or excess production capacity by our competitors in the PCB industry and recessionary pressure in major electronics industry segments may result in intensified price competition and reduced margins. As a result, our financial condition and results of operations may be adversely affected. A weakness in the Israeli and international electronic markets may adversely affect our operating results and financial condition in the future.

- 4 -

Because competition in the PCB market is intense, our business, operating results and financial condition may be adversely affected.

The global PCB industry is highly fragmented and intensely competitive. It is characterized by rapidly changing technology, frequent new product introductions and rapidly changing customer requirements. We compete principally in the market for complex, flex-rigid and rigid multi-layer PCBs. In the Israeli market we mainly compete with PCB Technologies Ltd. and Melta Ltd. as well as with major international PCB exporters, mainly from South-East Asia, Europe and the United States. In the European market we mainly compete with Advanced Circuit Boards NV (Belgium), AT&S Austria Technologie & Systemtechnik AG (Austria), Dyconex and Cicor (Switzerland), Invotec (United Kingdom), Printca (Denmark), Schoeller-Electronics GmbH (formerly Ruwel Werke GmbH) (Germany) and certain other German companies. In the United States market we mainly compete with DDI Corp, KCA Electronics Inc., Lenthor Engineering, Printed Circuits, Inc., Teledyne and TTM Technologies Inc. Many of these competitors have significantly greater financial and marketing resources than us. Our current competition in the rigid PCB segment is mainly from PCB manufacturers in the Far-East (mainly in China), which have substantially lower production costs than us. Continued competitive pressures could cause us to lose significant market share.

Our quarterly operating results fluctuate significantly.

Our quarterly operating results have fluctuated significantly in the past and are likely to fluctuate significantly in the future. Our future operating results will depend on many factors, including (but not limited to) the following:

- the size and timing of significant orders and their fulfillment;
- demand for our products and the mix of products purchased by our customers;
 - competition with our products;
 - plant utilization;
- fluctuations in foreign currency exchange rates, primarily the NIS against the U.S. dollar and the Euro;
 - manufacturing yield;
- timing of expenditures based on projections of future sales;
 - availability of raw materials;
- timing to repair or replace any malfunctioning manufacturing equipment;
 - the length of our sales cycles;
 - changes in our strategy;
- the number of working days in the quarter;
 - changes in seasonal trends; and
- general domestic and international economic and political conditions.

Due to the foregoing factors, quarterly revenues and operating results are difficult to forecast, and it is likely that our future operating results will be adversely affected by these or other factors.

Quarterly sales and operating results are also difficult to forecast because quarterly sales and results are dependent, almost exclusively, on the volume and timing of orders during the quarter and our customers generally operate with a short delivery cycle and expect delivery of a significant portion of our production within 5 to 20 working days. The delivery of such orders is subject to the number of available working days during the quarter, which can fluctuate significantly from quarter to quarter due to holidays and vacations. Certain prototype and pre-production runs require even shorter turn-around times stemming from customers' product launches and design changes. In addition, there might be sudden increases, decreases or cancellations of orders for which there are commitments, which further characterize the electronics industry and the companies that operate in it. The industry practice is to make such changes without any penalties, except for the time and materials expended on the order.

Our business involves highly complex manufacturing processes that are subject to periodic failure. Process failures have occurred in the past and have resulted in delays in product shipments, and process failures may occur in the future. Further, our expenses are, in significant part, relatively fixed in the short-term. If revenue levels fall below expectations, our net income is likely to be disproportionately adversely affected because a proportionately smaller amount of the expenses varies with our revenues. We may not be able to be profitable on a quarterly or annual basis in the future. An ongoing pattern of cancellations, reductions in orders and delays could have a material adverse effect on our results of operations. Due to all of the foregoing, we cannot predict revenues for any future quarter 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.

We depend on our key customers and the loss of one or more of our key customers would result in a loss of a significant amount of our revenues.

In the years ended December 31, 2009, 2008 and 2007, our ten largest customers accounted for 54%, 50% and 52% of our revenues, respectively, of which one customer (consisting of two affiliated companies) accounted for 13.3%, 15.7% and 15.2% of our total revenues, respectively. We expect that a significant portion of our future revenues will continue to be dependent on a small number of customers. If we are unable to retain our key customers or if we are unable to attract sufficient new business to compensate for the loss of any of our key customers, our results of operations and financial condition would be adversely affected.

We are subject to environmental laws and regulations. Compliance with those laws and regulations requires us to incur costs and we are subject to fines or other sanctions for non-compliance

Our operations are regulated under various environmental laws and regulations that govern, among other things, the discharge of hazardous materials into the air and water, as well as the handling, storage and disposal of such materials. Compliance with these laws and regulations is a major consideration for PCB manufacturers because metals and chemicals classified as hazardous substances are used in the manufacturing process. Since May 2003, our environmental management system has been ISO 14001 certified. This certification was based on successful implementation of environmental management requirements and includes ongoing monitoring of our processes, raw materials and products. The certification is subject to periodic compliance audits conducted by the Israeli Institute of Standards. If, in the future, we are found to be in violation of environmental laws or regulations, we could be liable for damages, costs of remedial actions, may be subject to criminal prosecution including a range of potential penalties, and could also be subject to revocation of permits necessary to conduct our business or any part thereof. Any such liability or revocation could have a material adverse effect on our business, financial condition and results of operations. Environmental laws could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with a violation. A shortage of water in Israel may reduce the allocation

of water available to manufacturing plants, including ours, which could affect the concentrations of pollutants in our wastewater, making it harder to comply with the foregoing regulations, in which event we would be required to invest additional funds to improve our wastewater treatment systems.

- 6 -

The cost of compliance with environmental laws and regulations depends in part on the requirements in such laws and regulations and on the method selected to implement them. If new or more restrictive standards are imposed, the cost of compliance could be very high and have an adverse impact on our revenues and results of operations if we cannot recover those costs through the rates that we charge our customers.

We are subject to claims and litigation relating to environmental matters. If we are found to be in violation of environmental laws, we could be liable for damages and costs of remediation and may be subject to a halt in production, which may adversely affect our business, operating results and financial condition.

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

On May 4, 2010, we received a notice from the Rishon Le-Zion Magistrate's Court that the Public Council for the Prevention of Noise and Pollution in Israel, or the Public Council, has filed a lawsuit against us and certain of our directors regarding several alleged environmental damages caused by us with respect to our release of industrial waste water. The Public Council is a public organization established to promote issues concerning quality of life and the environment and is legally authorized to act to preserve the public interest, including the right to file lawsuits to such extent. We have 30 days to file a statement of defense. In its claim, the Public Council is seeking to compel us: (i) to disconnect from the municipal sewer system and to refrain from discharging contaminated wastewater into the sewer system; (ii) until the requested repairs are completed, to dispose of the wastewater that is allegedly being disposed of in a manner that does not comply with legal standards to a permitted site and to allow the Public Council's representatives to inspect such disposal; (iii) to refrain from discharging wastewater into the municipal sewer system until receipt of the Public Council's approval or an approval from the Israeli Ministry of Environment that we have conducted the required repairs in order to conform the quality of the wastewater to legal requirements; (iv) to enable the Public Council's representatives to visit our plant and to inspect the quality of the wastewater that is discharged into the municipal sewer system; (v) to pay all legal expenses and to be responsible for the Public Council's legal counsel's fee. Alternatively the Public Council requested the Court to provide any legal remedy it deems appropriate under the circumstances and in its discretion. At this preliminary stage it is impossible for us to estimate the lawsuit's outcome or impact on our financial results. If the court rules against us, we could be liable for costs and expenses of remedial actions and may be forced to halt production until the alleged violations are remediated. The impact of such actions could have a material adverse affect on our financial condition and results of operations.

We may not succeed in our efforts to expand into the U.S. defense market, and if we are unsuccessful our investments may be lost and our 2010 budget and future revenues and profitability would be adversely affected.

In January 2009, we received International Traffic in Arms Regulations registration from the U.S. Department of State, which certifies us to sell our PCBs to the U.S. defense market. Our business plan and budget for the year 2010

assume an increase in revenues to the U.S. defense market based on our receipt of this certification. However, our efforts to enter into to the U.S. defense market may not succeed and this may not become a substantial market for us. If we are unsuccessful in such efforts, our investments may be lost and our 2010 budget and future revenues and profitability would be adversely affected.

- 7 -

Our operating margins might be affected as a result of price increases for our principal raw materials.

In recent years, the significant increase in oil and energy costs and commodity prices (such as copper, gold and glass fibers) put pressure on our suppliers to increase their prices for most of our principal raw materials. We may not be successful in our attempts to negotiate lower price increases than requested by our suppliers. We have faced pressure to raise our prices for our products to compensate for supplier price increases in order to maintain our operating margins, and we may not be able to maintain moderate price increases as we have in the past. Future price increases for our principal raw materials may materially affect our operating margins and future profitability.

We are dependent upon a select number of suppliers of key raw materials and the loss of one or more of these suppliers would adversely affect our manufacturing ability. If these suppliers delay or discontinue the manufacture or supply of these raw materials, we may experience delays in production and shipments, increased costs and cancellation of orders for our products.

We currently obtain our key raw materials from a select number of suppliers. We do not have long-term supply contracts with our suppliers and our principal suppliers may not continue to supply raw materials to us at current levels or at all. Any delays in delivery of or shortages in these raw materials could interrupt and delay manufacturing of our products and may result in the cancellation of orders for our products. As the majority of PCB manufacturing is centered in the Far East, raw material suppliers may focus their attention and give higher priority to manufacturers in the Far East, which may interrupt the supply of raw materials to us. In addition, these suppliers could discontinue the manufacture or supply of these raw materials at any time. During the years ended December 31, 2009, 2008 and 2007, our purchases from one supplier accounted for 15.9%, 11.3% and 15.0% of our total consolidated raw material costs, respectively. We may not be able to identify and integrate alternative sources of supply in a timely fashion. Any transition to alternate suppliers may result in delays in production and shipment and increased expenses and may limit our ability to deliver products to our customers. Furthermore, if we are unable to identify an alternative source of supply, we may have to modify our products or a large portion of our production process to use a substitute raw material, which may cause delays in production and shipments, increased design and manufacturing costs and increased prices for our products.

We may encounter difficulties with our international operations and sales that may have a material adverse effect on our sales and profitability.

We are based in Israel and Germany and generate a large percentage of our sales in Europe and North America. Our sales in Europe for the years ended December 31, 2009, 2008 and 2007 accounted for 26.4%, 30.6% and 36.3% of our consolidated revenues, respectively, of which 11.3%, 13.6% and 12.2% was generated in Germany, respectively. Our sales in North America for the years ended December 31, 2009, 2008 and 2007 accounted for 20.0%, 15.7% and 11.6% of our consolidated revenues, respectively. We intend to increase our business in the United States, including sales to U.S. military contractors. However contracts with U.S. military agencies, as well as military equipment manufacturers in Europe, are subject to certain regulatory restrictions and approvals, which we may not be able to comply with or obtain. We may not be able to maintain or increase international market demand for our products. To the extent that we cannot do so, our business, operating results and financial condition may be adversely affected.

International operations are subject to inherent risks, including the following:

- the impact of possible recessionary environments in multiple foreign markets;
- changes in regulatory requirements and complying with a wide variety of foreign laws;
- tariffs and other trade barriers;

- the imposition of exchange or price controls or other restrictions on the conversion of foreign currencies;
- difficulties and costs of staffing and managing foreign operations; and

- 8 -

- political and economic instability.

Our results of operations may be harmed by currency fluctuations.

Our reporting currency is the U.S. dollar. Our revenues are primarily denominated in the U.S. dollar, while our expenses are primarily denominated in NIS, U.S. dollars and Euros. As a result, fluctuations in rates of exchange between NIS and non-NIS currencies may affect our operating results and financial condition. The NIS value of our U.S. dollar and Euro denominated revenues are negatively impacted by the depreciation of the U.S. dollar and the Euro against the NIS. The average exchange rate for the NIS against the U.S. dollar was 9.4% higher in 2009 than 2008 and the average exchange rate for the NIS against the Euro was 3.8% higher in 2009 than 2008, which had a positive impact on our operating results in 2009. The average exchange rate for the NIS against the dollar was 12.7% lower in 2008 than in 2007 and the average exchange rate for the NIS against the Euro was 6.4% lower in 2008 than 2007, which had a significant adverse effect on our operating results in 2008.

If we were to determine that it is in our best interests to enter into any other hedging transactions in the future in order to protect ourselves in part from currency fluctuations, we may not be able to do so, or such transactions, if entered into, may not materially reduce the effect of fluctuations in foreign currency exchange rates on our results of operations and may result in additional expenses.

We may encounter difficulty in realizing the potential financial or strategic benefits of future business acquisitions and investments.

We believe that the acquisition of and the investment in new subsidiaries could assist us in reaching our goals of focusing on the high end flex-rigid and specialty PCB market, and in expanding our exports mainly into Europe and the United States. Any acquisition or investment would present risks commonly encountered in the acquisition of or investment in other businesses. The following are examples of such risks, one or more of which may apply to any such acquisition or investment:

- difficulty in combining the technology, operations or work force of the acquired business;
- adverse effects on our reported operating results due to the amortization or write-down of intangible assets associated with acquisitions;
- diversion of management attention from running our existing business; and
- increased expenses, including compensation expenses resulting from newly-hired employees.

Our results may be adversely affected by product liability claims.

The sale and support of our products may entail the risk of product liability claims, which are likely to be substantial in light of the use of our products in business-critical applications. Over the years we have been involved in claims or litigations relating to allegedly defective products. If such suits are brought against us in the future, our business, results of operations and financial condition may be adversely affected.

Technological change may adversely affect the market acceptance of our products.

Technological change in the PCB industry is rapid and continual. To satisfy customers' needs for increasingly complex products, PCB manufacturers must continue to develop improved manufacturing processes, provide innovative solutions and invest in new facilities and equipment. To the extent we determine that new technologies

and equipment are required to remain competitive, the acquisition and implementation of such technologies and equipment are likely to require significant capital investment. We expect that we will need to invest large amounts during the next years to renew old equipment and to remain competitive in the market. This capital may not be available to us in the future for such purposes and any new manufacturing processes developed by us may not become or remain commercially viable. As a result, we may not be able to maintain our current technological position. Furthermore, the PCB industry may in the future encounter competition from new technologies that may reduce demand for PCBs or may render existing technology less competitive or obsolete. Our future process development efforts may not be successful or the emergence of new technologies, industry standards or customer requirements may render our technology, equipment or processes obsolete or uncompetitive.

We may require additional capital in the future, which may not be available to us.

Our working capital requirements and cash flow provided by our operating and financing activities are likely to vary greatly from quarter to quarter, depending on the following factors:

- the timing of orders and deliveries;
- the purchase of new equipment;
- the build-up of inventories;
- the payment terms offered to our customers;
- the payment terms offered by our suppliers; and
- approval of the current or additional lines of credit and long-term loans from banks.

As of December 31, 2009, we had revolving lines of credit aggregating \$ 4.4 million with our banks, all of which was utilized as of such date. As of December 31, 2009, we also had \$3.7 million of long-term loans. These credit facilities may not remain available to us in the future. Furthermore, under certain circumstances the banks may require us to accelerate the repayment of our credit facilities. All of our assets are pledged as security for our liabilities to our banks, whose consents are required for any future pledge of such assets.

Financial covenants in respect of our credit facilities and long-term debt with one of our banks require us to maintain the higher of shareholders' equity of NIS 17.5 million (\$4.6 million) or 17% of our consolidated total assets. For this purpose, shareholders' equity excludes certain intangible assets and prepaid expenses (except insurance premiums). As of December 31, 2009, we were not in compliance with such covenants. However, in April 2010, the bank granted us a waiver, stating that the bank would not take any measures against us arising from the breach of such covenants until the release of our financial statements for December 31, 2010, at which time we must return to compliance. The bank further clarified that our compliance with the financial covenants would be measured annually based on the audited financial statements for December 31, each year. Financial covenants in respect of our credit facilities and long-term debt with another bank require us to maintain the higher of shareholders' equity, excluding certain intangible assets and prepaid expenses (except insurance premiums), of NIS 24.0 million (\$6.4 million) or 23% of our total assets (on a non-consolidated basis). As of December 31, 2009, we were not in compliance with such covenants. However, in April 2010, the bank granted us a waiver, reducing the covenants for the higher of shareholders' equity, excluding certain intangible assets and prepaid expenses (except insurance premiums) to NIS 16 million (\$4.2 million) or 17% of our total assets (on a non-consolidated basis). The bank further clarified that our compliance with the financial covenants would be measured annually based on the audited financial statements for December 31, each year. The foregoing NIS amounts have been translated for convenience into U.S. dollars at the representative rate of exchange on December 31, 2009 of \$1.00= NIS 3.775, as published by the Bank of Israel. We may not be able to maintain compliance with such covenants in the future.

To the extent that the funds generated from our operations and from our existing capital resources are insufficient to fund our operating and financial requirements, we may be required to raise additional funds through public or private financing or other sources. Such additional financing may not be available to us or, if available, may not be obtained on terms favorable to us. Any equity financing may cause dilution to our then current shareholders. If additional funds are raised through the issuance of equity securities, the percentage ownership of then current shareholders will be diluted. We do not have any committed sources of additional financing, and additional financing, if necessary, may not be available on commercially reasonable terms, if at all. If adequate funds are not available on terms

acceptable to us, we may be required to delay, scale back or eliminate certain aspects of our operations, and our business, financial condition and results of operations would be materially adversely affected.

- 10 -

We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our ordinary shares.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, governing internal control and procedures for financial reporting, which started in connection with our 2007 Annual Report on Form 20-F, have resulted in increased general and administrative expenses and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources. We may identify material weaknesses or significant deficiencies in our assessments of our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigations or sanctions by regulatory authorities, and could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our ordinary shares.

Risk Factors Related to Our Ordinary Shares

Our share price has been volatile in the past and may continue to be susceptible to significant market price and volume fluctuations 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;
- announcements by governmental or regulatory authorities of significant investigations or proceedings against us;
- additions or departures of key personnel;
- changes in our cost structure due to factors beyond our control, such as new laws or regulations relating to environmental matters and employment;
- future sales of our ordinary shares;
- general stock market price and volume fluctuations; and

- devaluation of the dollar against the NIS.

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, 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.

- 11 -

If we fail to maintain NASDAQ's continued listing requirement of a minimum bid price of at least \$1.0 per share for a period of 30 consecutive business days, our shares may be delisted from The NASDAQ Capital Market.

Our ordinary shares are listed on The NASDAQ Capital Market under the symbol "ELTK." To continue to be listed on NASDAQ, we need to satisfy a number of conditions, including a minimum bid price for our ordinary shares of \$1.0 per share for a period of 30 consecutive business days. If we fail to comply with such requirement, we would have a period of 180 calendar days to achieve compliance by meeting the applicable standard for a minimum of ten consecutive business days (and in some cases, NASDAQ may require a company to maintain a bid price of at least \$1.0 per share for a period in excess of ten consecutive business days, but generally no more than 20 consecutive business days). If we are not deemed in compliance before the expiration of the 180 day compliance period, NASDAQ may afford us an additional 180 day compliance period, provided that on the 180th day of the first compliance period we have demonstrated that we meet all applicable standards for initial listing on the NASDAQ Capital Market (except the bid price requirement) based on our most recent public filings and market information.

Our ordinary shares have experienced significant market price and volume fluctuations in the past and for certain periods have traded below the \$1.0 threshold requirement for continued trading. In 2009, the price of our ordinary shares ranged from \$0.66 (low) to \$1.70 (high). The closing price of our ordinary shares on May 10, 2010, was \$1.66 per share. If we fail to meet the minimum bid price requirement, our share may be delisted from the NASDAQ Capital Market. If we are delisted from NASDAQ, trading in our ordinary shares would be conducted on a market where an investor would likely find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of, our ordinary shares.

We do not expect to distribute dividends in the foreseeable future.

We have never declared or paid any cash dividends on our ordinary shares. We currently intend to retain our current and any future earnings to finance operations and expand our business and, therefore, do not expect to pay any dividends in the foreseeable future. According to the Israeli Companies Law, a company may distribute dividends out of its profits (as defined by the Israeli Companies Law), provided that there is no reasonable concern that such dividend distribution will prevent the company from paying all its current and foreseeable obligations, as they become due, or otherwise upon the permission of the court. In the event cash dividends are declared, such dividends will be paid in NIS. The declaration of dividends is subject to the discretion of our board of directors and would depend on various factors, including our operating results, financial condition, future prospects and any other factors deemed relevant by our board of directors. You should not rely on an investment in our company if you require dividend income from your investment.

Risks Relating to Our Operations in Israel

Political, economic and military instability in Israel may disrupt our operations and negatively affect our business condition, harm our results of operations and adversely affect our share price.

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

Since the establishment of the State of Israel in 1948, Israel and its Arab neighbors have engaged in a number of armed conflicts. A state of hostility, varying from time to time in intensity and degree, has led to security and

economic problems for Israel. Major hostilities between Israel and its neighbors may hinder Israel's international trade and lead to economic downturn. This, in turn, could have a material adverse effect on our operations and business. Since September 2000, there has been an increase in unrest and terrorist activity in Israel of varying levels of severity. In recent years, there has been an escalation in violence among Israel, Hamas, Hezbollah, the Palestinian Authority and other groups. There were extensive hostilities along Israel's northern border with Lebanon in the summer of 2006. Since June 2007, when Hamas effectively took control of the Gaza Strip, there have been extensive hostilities along Israel's border with the Gaza Strip. Hamas launched hundreds of missiles from the Gaza Strip against Israeli population centers, which led to an armed conflict between Israel and Hamas during December 2008 and January 2009. Ongoing violence between Israel and the Palestinians as well as tension between Israel and neighboring Syria and Lebanon or Iran may have a material adverse effect on our business, financial conditions and results of operations.

Furthermore, there are a number of countries, primarily in the Middle East, as well as Malaysia and Indonesia, that restrict business with Israel or Israeli companies, and we are precluded from marketing our products to these countries. Restrictive laws or policies 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 reserve service.

Many of our employees and some of our directors and officers in Israel are obligated to perform annual reserve duty in the Israeli Defense Forces and may be called for active duty under emergency circumstances at any time. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. 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.

Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.

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

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

Provisions of Israeli law may delay, prevent or make difficult an acquisition of us, which could prevent a change of control and therefore impact the price of our shares.

Provisions of Israeli corporate and tax laws 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.

The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our memorandum of association, articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, each shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his or her power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a controlling shareholder of an Israeli

company, or a shareholder who knows that he or she possesses the power to determine the outcome of a shareholder vote or who has the power to appoint or prevent the appointment of a director or officer in the company, has a duty of fairness toward the company. However, Israeli law currently does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revision in recent years, there is relatively little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

- 13 -

As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements. We follow Israeli law and practice instead of NASDAQ rules regarding the composition of the board of directors, director nomination process and quorum at shareholders' meetings.

As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of The NASDAQ Marketplace Rules. We follow Israeli law and practice instead of The NASDAQ Marketplace Rules regarding the composition of the board of directors, director nomination process and quorum at shareholders' meetings. As a foreign private issuer listed on the NASDAQ Capital Market, we may also follow home country practice with regard to, among other things, compensation of officers and the requirement to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the Securities and Exchange Commission each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were incorporated under the laws of the State of Israel on January 1, 1970. We are a public limited liability company under the Israeli Companies Law 5759-1999 and operate under that law and associated legislation. Our registered offices and principal place of business are located at 4 Drezner Street, Sgoola Industrial Zone, Petach Tikva 49101, Israel, and our telephone number is +972-3-9395025. Our address on the Internet is www.eltekglobal.com. The information on our website is not incorporated by reference into this annual report.

We manufacture and supply technologically advanced, custom made circuitry solutions for use in sophisticated and compact electronic products. We provide specialized services and are a solution provider in the PCB business, mainly in Israel, Europe and the United States. PCBs are platforms that conduct an electric current among active and passive microelectronics components, microprocessors, memories, resistors and capacitors and are integral parts of the products produced by high-technology industries. Our focus is on short run quick-turnaround, prototype, pre-production and low to medium volume runs of high-end PCB products for high growth, advanced electronics applications, mainly flex-rigid PCBs.

We design and develop innovative manufacturing solutions pursuant to complex interconnect requirements of original equipment manufacturers, and provide our customers with a wide range of custom designed PCBs, including complex rigid, double-sided and multi-layer PCBs as well as flexible circuitry (flex and flex-rigid boards) made of several types of high-performance base material. To complement our quick-turnaround, prototype, pre-production and low to medium volume production capability and provide our customers with single source service, we also act as an agent for the importation of PCBs from the Far East when customers require high volume production runs, although such activity was not significant in 2009.

In July 2000, we adopted a plan to create the capacity and capability to offer our customers the new state-of-the-art PCB technology known as high density interconnect, or HDI. This technology enables manufacturers to produce

PCBs with line width and spaces as narrow as 3-4 mils and hole diameters of 8 to 10 mils (1 mil=0.001 inch). We began to supply PCBs utilizing the HDI technology to select customers in August 2000 and since such time have focused our efforts on HDI PCBs. In 2009, we continued to focus on the sale of flex-rigid HDI PCBs and PCBs made with high performance base materials. Such products accounted for approximately \$27 million, or 74% of our total sales, in the year ended December 31, 2009 as compared to approximately \$31 million, or 73% of our total sales, in the year ended December 31, 2008 and approximately \$27 million, or 72% of our total sales, in the year ended December 31, 2007.

In June 2002, we acquired 76% of Kubatronik, a privately held German PCB manufacturer, for approximately Euro 2.6 million (\$2.4 million as of the date of acquisition). The remaining 24% of Kubatronik is held by Mr. Alois Kubat, its founder and General Manager at that time. Pursuant to the acquisition agreement (as amended), prior to December 31, 2012 (which 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), Mr. Kubat has the right to require us to purchase, and we have the right to require him (or his permitted transferee) to sell to us, his remaining 24% interest in Kubatronik. The price for Mr. Kubat's remaining holdings in Kubatronik under the put option is Euro 552,000 (\$796,000). The price for Mr. Kubat's remaining holdings in Kubatronik under the call option is Euro 582,000 (\$840,000). Under U.S. GAAP, such an arrangement gives rise to a derivative instrument, which must be marked to market every reporting period. Kubatronik specializes in manufacturing short run and prototype boards, including multi-layer, flex-rigid and HDI boards. Its customers include companies engaged in the production of industrial, defense, aerospace, telecom, networking, computer and data storage equipment, as well as contract electronic manufacturers. This acquisition facilitated our entry into the German market, while complementing our other relationships throughout the rest of Europe.

In November 2006, we entered into a license agreement with Stablcor, Inc., under which we were granted the first license to use the STABLCOR® technology, an advanced thermal management solution for PCB fabrication, outside the United States. The STABLCOR technology enables PCB manufacturers, such as our company, to produce smaller electronic products while eliminating the thermal, mechanical and reliability concerns that currently challenge the semiconductor industry. We intend to work with the STABLCOR technology to design and develop new and unique solutions for our high-end customers and believe that this license will expand our opportunities in the high-end PCB market. However, acceptance of new technologies, particularly by the defense and aerospace markets, can be slow and it may take several years for market acceptance of a PCB product using the STABLCOR technology.

During the three years ended December 31, 2009, we invested approximately \$6.6 million in the expansion of our facilities and infrastructures and purchase of equipment. In 2010, we expect to invest approximately \$500,000 in capital expenditures, primarily for our operations in Israel, mainly in manufacturing equipment to upgrade our technological capabilities. We intend to finance these expenditures with bank loans, suppliers' credit and from operational cash flow; however, any such external financing may not be available, or, if available, may not be on terms favorable to us.

B. Business Overview

Industry Overview

PCBs are constructed from a variety of base raw materials. PCBs can be double-sided or multi-layered and made of rigid, flexible, flex-rigid or high-frequency materials. In essence, they are platforms that conduct electrical signals among active and passive microelectronics components, microprocessors, memories, resistors and capacitors. Photolithographic type processes transfer the images of the electrical circuit onto the layers, and chemical processes etch these lines on the boards. There are several broad categories of PCBs:

Rigid PCBs. Rigid PCBs are the core product of the industry and can be found in virtually every electronics device. The layer count of these products generally ranges from two to 20 layers, although some PCBs are composed of 36 layers.

Flexible and flex-rigid PCBs. Flexible boards are thin, light-weight circuits used to interconnect other circuit boards and electronic devices within electronic equipment. Flex-rigid boards are composed of rigid parts and flexible layers. They generally range from two to 30 layers. Flex-rigid boards provide solutions for electronic systems that impose space and shape restrictions and for systems in which reliability of connectivity is crucial. These products are

often found in military applications (primarily avionics), medical and measurement equipment and the automotive industry, among other uses.

- 15 -

Backplanes. Backplanes are large, high-density circuit boards with design features such as tight tolerance finished hole sizes that require precise process controls. These products are commonly known as “motherboards” on which connectors are mounted to receive and interconnect other PCBs and can be found primarily in telecommunications applications.

PCB manufacturers can generally be classified based on two parameters, product sophistication and service sophistication. Product sophistication is evident in the capability of a PCB manufacturer to offer products with higher layer counts and more complex construction, as well as in the line width and the spacing of lines on the circuit boards. The state-of-the-art HDI technology enables manufacturers to produce PCBs with line width and spaces as narrow as 3-4 mils and hole diameters of 6 to 10 mils.

Manufacturing and Engineering Processes

In the PCB industry, significant investments in equipment are necessary to maintain technological competitiveness. During the three years ended December 31, 2009, we invested approximately \$ 4.0 million in machinery and equipment for that purpose.

Manufacturing Capabilities. We have the capability to manufacture PCBs with layer counts in excess of 36 layers, blind and buried vias and designs using materials as thin as 0.001 inches. We established our HDI advanced capabilities after a two-year period of research and development, followed by a significant investment in HDI production capacity. In August 2000, we began to supply HDI products to selected customers. We are able to produce short runs of five to 30 units of simple type PCBs within three to five working days, and a few hundred units within ten working days and are capable of producing such number of boards within five working days when production line scheduling permits. During 2007, we applied new technologies to enable us to manufacture “via-in-pad” multilayer PCBs, microvia filling, through hole via filling and copper overplating. These technologies enable us to offer our customers solutions and participate in bids in which we were not able to participate in the past. We are continuing to develop this technology to comply with new specifications and requirements of our customers and potential customers. In the year ended December 31, 2009, approximately 24% of our manufactured products were ordered for delivery in less than 20 working days, of which approximately 5% were ordered for delivery within six to ten working days and approximately 3% in five or less working days.

Computer Aided Design/Computer Aided Manufacturing (CAD/CAM). We utilize a state-of-the-art CAD system developed by Frontline PCB Solutions Ltd., an Israeli-based company jointly owned by Orbotech Ltd. and Valor Ltd., and can receive CAD data by electronic data transmission. Our CAD workstations perform design rule checks on transmitted designs, incorporate any customer-specific design modifications and perform manufacturability enhancements that increase PCB quality.

Advanced Finishing Capabilities for Dense Packaging Designs. We provide a wide assortment of alternative surface finishes, including hot air solder leveling, electroless gold over nickel, tin immersion, silver immersion and Entek, which is produced by Enthone-Omi Inc., for the attachment of components to PCBs.

Other Advanced Process Capabilities. We provide fabrication of dense multi-layer PCBs. We use an advanced inner-layer production line, a laser direct imaging system, drilling equipment and clean room environments (ISO-7) to produce technologically advanced products.

Quality, Environmental and Safety Standards. Our quality management system has been ISO 9001:2000 certified since July 2002 (and prior to such date, was ISO 9002 certified from January 1995). Such certification is based on successful implementation of quality assurance requirements and includes ongoing monitoring of our business and periodic compliance audits conducted by the Israeli Institute of Standards. We have obtained United States

Department of Defense Qualified Product List approval (MIL-PRF-55110F and MIL-P-50884D) for our products. Since 1976, our rigid glass epoxy (FR4 and FR5) and flex-rigid boards have been UL 94V-0 certified by Underwriters Laboratories Inc. (a standards organization that offers product safety testing and certification of product safety). Our environmental management system has been ISO 14001:2004 certified since 2005 (and prior to such date was ISO 14001 certified from 2003). We are OHSAS 18001 certified for occupation health and safety management systems since December 2007. In November 2009, we became certified to the AS 9100 quality management standard for the aerospace industry.

Sales, Customers and Marketing

Sales. In the years ended December 31, 2009, 2008 and 2007, the primary industries for which we produced PCBs were defense and aerospace equipment (48%, 42% and 37% of production, respectively), medical equipment (20%, 23% and 25% of production, respectively), industrial equipment (15%, 20% and 19% of production, respectively) and telecom and networking equipment (4%, 5% and 6% of production, respectively), and to a lesser degree we produce PCBs for contract electronic manufacturers, distributors and others (13%, 10% and 13% of production, respectively).

Customers. During the year ended December 31, 2009, we provided PCBs to approximately 50 customers in Israel and approximately 100 customers outside of Israel (including Kubatronik's customers). Our customers outside of Israel are located primarily in Germany, France, Italy, the Netherlands, Scandinavia and the United States. Sales to non-Israeli customers were \$19.4 million (53.2% of revenues) for the year ended December 31, 2009, \$22.2 million (51.6% of revenues) for the year ended December 31, 2008 and \$19.0 million (50.6% of revenues) for the year ended December 31, 2007.

In the years ended December 31, 2009, 2008 and 2007 our ten largest customers accounted for 54%, 50% and 52% of our revenues, respectively, of which one customer (consisting of two affiliated companies) accounted for 13.3%, 15.7% and 15.2% of our total revenues, respectively. We expect that a significant portion of our future revenues will continue to be dependent on a small number of customers.

Marketing. We market and sell our products primarily through our direct sales personnel, sales representatives and agreements with PCB trading and manufacturing companies. Our sales personnel currently consist of 11 persons, of which six persons are in Israel, two persons are in the United States employed by our U.S. subsidiary, Eltek USA Inc., one person is employed by our European subsidiary, Eltek Europe GmbH, and two persons are employed by our German subsidiary, Kubatronik, and we also have sales representatives in Germany and Sweden. In the Netherlands and Italy PCB trading and manufacturing companies act as distributors of our products. In the United States we market and sell our products through our U.S. subsidiary, as well as through 11 independent local sales representatives and a PCB manufacturing company. In India we market our products through a local sales agent. We maintain technical support services for our customers world-wide. We also maintain customer service support centers that handle all logistical matters relating to the delivery of our products and receive and handle complaints relating to delivered products. Our customer service personnel currently consist of nine persons, of which five persons are in Israel, one person is in the United States employed by our U.S. subsidiary, Eltek USA Inc and three persons are employed by our German subsidiary, Kubatronik.

Our strategy is to focus on the high end of the PCB market, mainly in flex-rigid PCBs, in which margins are better. We are currently focusing our marketing efforts on the defense and medical industries. To penetrate the U.S. defense market, we applied for International Traffic in Arms Regulations, or ITAR, registration from the U.S. Department of State, Bureau of Political-Military Affairs, which we received in January 2009. ITAR regulates the manufacture, export and transfer of defense articles, information and services. ITAR is a set of U.S. government regulations that controls the export and import of certain defense-related articles and services. The regulations restrict sensitive information and technologies only to be shared with U.S. persons, unless special approval is acquired. To qualify for ITAR registration, we met strict requirements for corporate structure, security, record keeping and procedures to allow us to sell our PCBs for use in U.S. defense products. In November 2009, we became certified to the AS 9100B quality management standard for the avionic industry in order to strengthen our position in the avionic and aerospace market in the United States and Europe.

We have ongoing programs to upgrade our processes by implementing high-quality standards, employee training and special training activities for clients. Marketing efforts include recruiting independent sales representatives in various geographic areas, the distribution of promotional materials, seminars for engineers, the supply of technical

information to business publications and participation in trade shows and industry conferences.

- 17 -

Materials and Supplies

The materials used in the manufacture of PCBs are primarily laminates (copper clad, with an isolating core separating them), prepregs, photo-chemical films, chemicals and inks. The materials we use are manufactured in Europe, the United States and the Far-East. Some of the materials are purchased directly from the manufacturer, while others are purchased from local distributors.

During 2005 and 2006, the significant increase in oil and energy costs and commodity prices (such as copper, gold and glass fibers) put pressure on our suppliers to increase their prices for most of our principal raw materials. From 2007 through 2009, the prices stabilized, but we expect prices to increase in 2010. During recent years, price negotiations with our suppliers resulted in lower price increases than requested by our suppliers, however we may not continue to be successful in such negotiations in the future. We have also faced pressure to raise our prices for our products to compensate for these price increases and although we have managed to date to maintain our sales prices with moderate price increases, we may not be able to do so in the future. Future price changes for raw materials may materially affect our future profitability.

Competition

The global PCB industry is highly fragmented and intensely competitive, trends that we believe will continue. It is characterized by rapidly changing technology, frequent new product introductions and rapidly changing customer requirements. We compete principally in the market for complex, flex-rigid multi-layer PCBs. In the Israeli market we mainly compete with Melta Ltd. and PCB Technologies Ltd., as well as with major PCB exporters, mainly from the Far East, United States and Europe. In the European market we mainly compete with Advanced Circuit Boards NV (Belgium), AT&S Austria Technologie & Systemtechnik AG (Austria), Dyconex and Cicor (Switzerland), Invotec (United Kingdom), Printca (Denmark), Schoeller-Electronics GmbH (formerly Ruwel Werke GmbH) (Germany) and certain other German companies. In the United States market we mainly compete with DDI Corp, Endicott Interconnect Technologies Inc, KCA Electronics Inc., Lenthor Engineering, Printed Circuits, Inc., Teledyne and TTM Technologies Inc,. Many of these competitors have significantly greater financial, technical and marketing resources than us. Although capital requirements are a significant barrier to entry for manufacturing complex PCBs, the basic interconnect technology is generally not protected by patents or copyrights. Our current competition in the rigid PCB segment is mainly from PCB manufacturers in the Far-East (mainly in China), which have substantially lower production costs than us. Continued competitive pressures could cause us to lose market share and reduce prices.

Environmental Matters

Since May 2003, our environmental management system has been ISO 14001 certified. This certification was based on successful implementation of environmental management requirements and includes ongoing monitoring of our processes, raw materials and products. The certification is subject to periodic compliance audits conducted by the Israeli Institute of Standards.

PCB manufacturing requires the use of metals and chemicals classified as hazardous substances. Water used in the manufacturing process must be treated to remove metal particles and other contaminants before it can be discharged into the local sewer systems. We operate and maintain effluent water treatment systems and use approved testing procedures at our manufacturing facilities. There is no assurance, however, that violations will not occur in the future. We are also subject to environmental laws and regulations relating to the storage, use and disposal of chemicals, solid waste and other hazardous materials, as well as air quality regulations. Environmental laws and regulations could become more stringent over time, and the costs of compliance with more stringent laws could be substantial. Environmental regulations enacted in Israel in September 2000 provide that a company that is found to

have discharged water containing contaminates will be liable for quadruple the amount normally charged for its water consumption. Over the years, we have undertaken various actions to reduce the use of water in our manufacturing facilities. In 2008 and 2009, we invested in improving our effluent wastewater treatment system to lower the amounts of inorganic salts in the discharged water. All our actions were coordinated with the Israeli Ministry of Environment and in August 2008, we received a waiver for a period of two years that enables us to increase the amount of minerals disposed of by wastewater. During 2010, we expect to invest in reducing the amount of metal concentrations in our wastewater. A shortage of water in Israel may reduce the allocation of water available to manufacturing plants, including ours, which could affect the concentrations of pollutants in our wastewater, making it harder to comply with the foregoing regulations, in which event we would be required to invest additional funds to improve our wastewater treatment systems.

For information regarding environmental claims, see Item 8A. “Financial Information – Consolidated and Other Financial Information – Legal Proceedings.”

Intellectual Property Rights

Our success depends in part on our proprietary techniques and manufacturing expertise, particularly in the area of complex multi-layer and flex-rigid PCBs. Like many companies in the PCB industry, we do not hold any patents and rely principally on trade secret protection of our intellectual property. We believe that, because of the rapid pace of technological change in the electronics industry, the legal protections for our products are less significant factors in our success than the knowledge, ability and experience of our employees, the frequency of product enhancements and the timeliness and quality of support services that we provide.

C. Organizational Structure

In May 2002, we established En-Eltek Netherlands 2002 B.V., a wholly-owned subsidiary organized in the Netherlands, for the purpose of our acquisition of a 76% interest in Kubatronik. Kubatronik is a PCB manufacturer that specializes in short run and prototype boards, including multi-layer, flex-rigid and HDI boards. Its customers include companies engaged in the production of industrial equipment, defense and aerospace equipment, telecom and networking equipment, and computer and data storage equipment as well as contract electronic manufacturers. Mr. Alois Kubat, Kubatronik’s founder, holds the remaining 24% interest in Kubatronik. Mr. Kubat has the right to require us to purchase, and we have the right to require him (or his permitted transferee) to sell to us, his remaining interest in Kubatronik. See Item 5B. “Operating and Financial Review and Prospects - Liquidity and Capital Resources.”

In July 2007, we established Eltek USA Inc., a wholly-owned subsidiary incorporated in Delaware, to manage our sales and marketing activities in the North American market. Eltek USA Inc. commenced operations in 2008. In December 2008, we established Eltek Europe GmbH, a wholly-owned subsidiary organized in Germany, to manage our sales and marketing activities for certain European customers.

D. Property, Plants and Equipment

Leased Facilities

Our executive offices, as well as our design, production, storage and shipping facilities, aggregating approximately 90,000 square feet, are located in an industrial building in the Sgoola Industrial Zone of Petach Tikva, Israel. The lease for such facilities expires in February 2017 and we have an option to extend the lease for an additional five year term upon six months prior notice. In the year ended December 31, 2009, we recorded \$722,000 of rent expenses for these premises.

Kubatronik’s executive offices as well as its design, production, storage and shipping facilities, aggregating approximately 15,000 square feet, are located in an industrial building in Geislingen, Germany. The lease for the facilities expires on June 30, 2013. In the year ended December 31, 2009, Kubatronik paid an aggregate of approximately 72,000 Euro (\$101,000) in rent for these premises.

We also lease office space in New Hampshire for our U.S. subsidiary. The lease for the facilities expires on November 30, 2011 and we have an option to extend the lease for an additional two years period, upon three months prior notice. In the year ended December 31, 2009, we paid an aggregate of \$16,500 in rent for these premises.

Leased Equipment

We lease manufacturing equipment under one operating lease agreement, pursuant to which as of December 31, 2009 we were obligated to pay a total amount of \$420,000 through March 2015. Our monthly lease expense under this agreement is \$7,000.

Kubatronik leases manufacturing equipment under three operating lease agreements, which as of December 31, 2009 required us to pay a total of 185,771 Euros (\$267,790) through March 2013. Our monthly lease expense under these two agreements is approximately 5,293Euros (\$7,410).

ITEM 4A.

UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

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

Overview

We were incorporated under the laws of the State of Israel in 1970. Since our initial public offering in January 1997, our ordinary shares have been listed on the NASDAQ Stock Market (symbol: ELTK) and are presently listed on the NASDAQ Capital Market. We have production facilities in Israel and Germany and marketing subsidiaries in Germany and the United States.

We develop, manufacture, market and sell PCBs, including high density interconnect (HDI) multi-layered and flex-rigid boards for the telecommunications, defense and aerospace and medical technology industries. Our principal customers include manufacturers of medical equipment, defense and aerospace equipment, industrial equipment, and telecom and networking equipment, as well as contract electronic manufacturers.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars in accordance with U.S. GAAP. Our functional currency is the NIS. The consolidated financial statements appearing in this annual report are translated into U.S. dollars at the representative rate of exchange under the current rate method. Under such method, the income statement and cash flows statement items for each year (or period) stated in this report are translated into U.S. dollars using the average exchange rates in effect at each period presented, and assets and liabilities for each year (or period) are translated using the exchange rate as of December 31 of each year (as published by the Bank of Israel), except for equity accounts, which are translated using the rates in effect at the date of the transactions. All resulting exchange differences that do not affect our earnings are reported in the accumulated other comprehensive income as a separate component of shareholders' equity.

Our business is subject to the effects of general global economic conditions. If general economic conditions fail to improve, or if they deteriorate, demand for our products could be adversely affected.

We have developed a work plan for 2010 which, if its results are achieved, would facilitate compliance with our financial covenants with the banks at December 31, 2010. The budget is based on the assumption that our revenues will increase in 2010, partly due to the improvement in the electronics industry and the PCB industry in particular following the global crisis, which started in the fourth quarter of 2008, the ripening of our marketing efforts in the United States and Europe and our receipt of the International Traffic in Arms Regulations Registration from the U.S. State Department, which certifies us to sell certain products to the U.S. defense market. Our budget is also based on a reduction of costs, partly due to a manufacturing program that we have implemented, which includes efficiency measures such as reduced headcount and improved yield. The budget is based on a U.S. dollar/NIS exchange rate of \$1 = NIS 3.7, which has remained fairly stable over the past several months. Although we anticipate that we will be in compliance with such covenants at December 31, 2010, our ability to be in compliance is dependent on factors that are out of our control, such as the stability of the U.S. dollar/NIS exchange rate, the demand for our products, including the impact of changes in customer buying, conditions in the PCB industry, our manufacturing process and other factors detailed in Item 3D “Key Information - Risk Factors.” Therefore, we cannot assure compliance with such covenants in the future nor that our financial condition will not worsen.

- 20 -

Critical Accounting Policies

We have identified the policies below as critical to the understanding of our consolidated 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.

The significant accounting policies described in Note 1 of our consolidated financial statements, which we believe to be most important to fully understand and evaluate our financial condition and results of operation under U.S. GAAP, are discussed below.

Revenue Recognition

We recognize revenues when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sale price is fixable or determinable. Commission income is accounted for on the accrual basis.

Inventories

Inventories are recorded at the lower of cost or market value. Cost is determined on the weighted average basis for raw materials, and on the basis of actual manufacturing costs for work-in-progress and finished goods.

Allowance for doubtful accounts receivable

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 the volume of their operations.

Fixed assets

Assets are recorded at cost. Depreciation on property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. 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.

Impairment in Value of Assets

We account for long-lived assets and certain intangible assets in accordance with the provisions of the Financial Accounting Standards Board, or the FASB, Accounting Standards Codification, or ASC, Subtopic 360-10, "Property, Plant, and Equipment - Overall" (previously FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"). FASB ASC Subtopic 360-10 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset or asset group to the undiscounted future net cash flows expected to be generated by the asset or the asset group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination. Goodwill is reviewed for impairment at least annually in accordance with the provisions of FASB SFAS No. 142, "Goodwill and Other Intangible Assets." The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value. An indication of goodwill impairment exists if the fair value of the reporting unit is less than its carrying value, and the enterprise 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, in accordance with FASB SFAS No. 141, "Business Combinations." 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 value, step two does not need to be performed. We have concluded that as at December 31, 2009, we did not have any reporting units that were at risk of failing step one of the goodwill impairment test.

Results of Operations

The following table sets forth, for the periods indicated, selected financial information expressed as a percentage of our total revenues:

| | Year Ended December 31, | | | | | |
|--|-------------------------|---|--------|---|--------|---|
| | 2009 | | 2008 | | 2007 | |
| Revenues | 100.0 | % | 100.0 | % | 100.0 | % |
| Cost of revenues | (84.7) |) | (86.4) |) | (85.1) |) |
| Gross profit | 15.3 | | 13.6 | | 14.9 | |
| Research and development (expenses) income, net | 0.0 | % | 0.2 | | (0.2) |) |
| Selling, general and administrative expenses | (16.5) |) | (16.7) |) | (15.1) |) |
| Impairment on goodwill | | | (0.9) |) | -- | |
| Total operating expenses | (16.5) |) | (17.4) |) | (15.3) |) |
| Operating profit (loss) | (1.2) |) | (3.8) |) | (0.4) |) |
| Financial expenses, net | (1.2) |) | (1.9) |) | (0.4) |) |
| Other income, net | * | | * | | * | |
| Profit (loss) before income tax expense and non controlling interest | (2.4) |) | (5.7) |) | (0.8) |) |
| Income tax expense | (0.1) |) | -- | | -- | |
| Net profit (loss) | (2.5) |) | (5.7) |) | (0.8) |) |
| Net profit (loss) attributable to non controlling interest | (0.1) |) | * | | * | |
| Net loss attributed to shareholders | (2.4) |) | (5.7) |) | (0.8) |) |

* Less than 0.1%

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Revenues. Revenues decreased by 15.5% to \$36.4 million for the year ended December 31, 2009 from \$43.1 million for the year ended December 31, 2008. The decrease in revenues is primarily attributable to the impact of the global economy slowdown.

Cost of Revenues. Cost of revenues decreased by 17.2% to \$30.9 million for the year ended December 31, 2009 from \$37.3 million for the year ended December 31, 2008. The decrease in cost of revenues is primarily attributable to the decrease in revenues and the depreciation of the NIS against the U.S. dollar in 2009, which decreased the U.S. dollar value of our NIS denominated expenses. Cost of revenues as a percentage of revenues decreased by 1.7% to 84.7% for the year ended December 31, 2009 from 86.4% in the year ended December 31, 2008. The decrease in cost of revenues as a percentage of revenues is primarily attributable to a decrease in raw material consumption and payroll expenses attributable to our manufacturing employees. We expect that our cost of revenues as a percentage of revenues will decrease in 2010 as we expect to reduce the number of working hours used in production (through either a reduction in the number of our employees or a reduction of overtime hours) and increase our revenues.

Gross Profit. Gross profit decreased by 5.0% to \$5.6 million for the year ended December 31, 2009 from \$5.9 million for the year ended December 31, 2008. The decrease in gross profit is primarily due the reduction in sales. Gross profit as a percentage of revenues increased to 15.3% for the year ended December 31, 2009 from 13.6% for the year ended December 31, 2008. The increase in gross profit as a percentage of revenues is primarily attributable to a decrease in raw material consumption and in payroll expense for our manufacturing employees. We expect that our gross profit as a percentage of revenues will increase in 2010 as we expect to reduce our number of working hours used in production (through either a reduction in the number of our employees or a reduction of overtime hours) and increase our revenues.

Research and Development (Expenses) Income, Net. We generally do not engage in significant research and development efforts. In connection with the conclusion in 2007 of our membership in the OptiPac consortium program of the Office of the Chief Scientist of the Ministry of Industry and Trade of the State of Israel, or the OCS, which we joined in 2005, we received a final reimbursement of reserve funds held by the OCS of \$100,000 in 2008.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by 16.4% to \$6.0 million for the year ended December 31, 2009 from \$7.2 million for the year ended December 31, 2008. This decrease in selling, general and administrative expenses is primarily attributable to the decrease in revenues, as our sales representatives receive their commissions based on revenues. We expect that our selling, general and administrative expenses will increase in 2010 as we expect to hire additional sales personnel in the United States and Europe.

Impairment loss on goodwill. In 2008, following our annual impairment test of goodwill, we determined that the value of our investment in Kubatronik had decreased and that as a result, goodwill in the amount of \$379,000 relating to our investment in Kubatronik had been impaired. As a result, for the year ended December 31, 2008, we recorded a goodwill impairment loss of \$379,000. We did not record any impairment of goodwill for the year ended December 31, 2009.

Operating loss (profit). As a result of the foregoing, our operating loss was \$456,000 for the year ended December 31, 2009 compared to an operating loss of \$1.6 million for the year ended December 31, 2008.

Financial Expenses, Net. Financial expenses, net decreased to \$424,000 for the year ended December 31, 2009 from \$826,000 for the year ended December 31, 2008. These financial expenses were primarily attributable to interest paid on short-term debt and long-term debt as well as exchange rate expenses, net and a loss on currency hedging transactions. The decrease in financial expenses is primarily attributable to reduced interest rates and a reduction in financial expenses recorded in the period as a result of the impact of the NIS exchange rate on outstanding non-NIS denominated customer and supplier balances.

Other Income, Net. We had other income, net of \$4,000 for the year ended December 31, 2009, compared with other income, net of \$1,000 for the year ended December 31, 2008, both of which are attributable to the gain we recorded

on the disposal of fixed assets.

Income Tax Expense. During the year ended December 31, 2009, we recorded income tax expenses of \$34,000 in respect of our subsidiary in the United States, based on a transfer price study performed on the sales of goods between Eltek Ltd. in Israel and Eltek USA Inc. in the United States. During the years ended December 31, 2008 and 2009, we did not record a net deferred tax asset and related tax benefit with respect to our net operating losses generated in Israel due to uncertainty about our ability to utilize such losses in the foreseeable future. Such uncertainty is primarily due to continued losses resulting from fluctuations of the NIS against the U.S. dollar, which may have an adverse impact on our financial results, the weak global economic climate, the fluctuations of the PCB industry and our history of losses. For the years ended December 31, 2008 and 2009, we did not record a net deferred tax asset and related tax benefit with respect to the net operating losses of Kubatronik due to uncertainty about its ability to utilize such losses in the foreseeable future.

- 23 -

Non controlling interest. Non controlling interest reflects the minority's share of \$30,000 in Kubatronik's net loss for the year ended December 31, 2009, as compared to the minority's share of \$1,000 in Kubatronik's net loss for the year ended December 31, 2008.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Revenues. Revenues increased by 15.1% to \$43.1 million for the year ended December 31, 2008 from \$37.5 million for the year ended December 31, 2007. The increase in revenues is primarily attributable to additional sales of PCBs to new and existing customers and the depreciation of the Euro against the U.S. dollar in 2008, which increased the U.S. dollar value of our Euro denominated revenues.

Cost of Revenues. Cost of revenues increased by 16.9% to \$37.3 million for the year ended December 31, 2008 from \$31.9 million for the year ended December 31, 2007. The increase in cost of revenues is primarily attributable to the higher volume of sales and to the appreciation of the NIS against the U.S. dollar in 2008, which increased the U.S. dollar value of our NIS denominated expenses (primarily salaries and other domestic expenses). Cost of revenues as a percentage of revenues increased to 86.4% in the year ended December 31, 2008 from 85.1 % in the year ended December 31, 2007. The increase in cost of revenues as a percentage of revenues is primarily attributable to the appreciation of the NIS against the U.S. dollar in 2008, which increased the U.S. dollar value of our NIS denominated expenses.

Gross Profit. Gross profit increased by 4.6% to \$5.9 million for the year ended December 31, 2008 from \$5.6 million for the year ended December 31, 2007. The increase in gross profit is primarily due to the higher volume of sales in 2008. Gross profit as a percentage of revenues decreased to 13.6% for the year ended December 31, 2008 from 14.9% for the year ended December 31, 2007. The decrease in gross profit as a percentage of revenues is primarily attributable to the appreciation of the NIS against the U.S. dollar in 2008, which adversely affected the U.S. dollar value of our NIS denominated expenses (primarily salaries and other domestic expenses).

Research and Development (Expenses) Income, Net. We generally do not engage in significant research and development efforts. In connection with our membership in the OptiPac consortium program of the OCS, which we joined in 2005 and was concluded in July 2007, we incurred an aggregate of \$517,000 in research and development expenses, of which \$167,000 was incurred in 2007. As of December 31, 2007, the OCS had reimbursed an aggregate of \$372,000 of our expenditure, of which \$93,000 was reimbursed in 2007. In connection with the conclusion of the OptiPac consortium and the distribution of reserve funds held by the OCS, we received a final reimbursement of \$100,000 in 2008.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by 26.7% to \$7.2 million for the year ended December 31, 2008 from \$5.7 million for the year ended December 31, 2007. This increase in selling, general and administrative expenses is primarily attributable to the appreciation of the NIS against the U.S. dollar in 2008, which adversely affected the U.S. dollar value of our NIS denominated expenses (primarily salaries and other domestic expenses), an increase in commissions to sales representatives as a result of an increase in sales made through our sales representatives and our participation in trade shows. In addition, following the write-down of our investment in Kubatronik in 2008, the estimated fair value of our liability attributable to Mr. Kubat's put option relating to his 24% ownership interest in Kubatronik increased, and as result, for the year ended December 31, 2008 we recorded a \$126,000 expense relating to such increase, in accordance with U.S. GAAP.

Impairment loss on goodwill. In 2008, following our annual impairment test of goodwill, we determined that the value of our investment in Kubatronik had decreased and that as a result, goodwill in the amount of \$379,000 relating to our investment in Kubatronik had been impaired. As a result, for the year ended December 31, 2008, we recorded a goodwill impairment loss of \$379,000. We did not record any impairment of goodwill for the year ended December

31, 2007.

- 24 -

Operating loss (profit). As a result of the foregoing, our operating loss was \$1.6 million for the year ended December 31, 2008 compared to an operating loss of \$160,000 for the year ended December 31, 2007.

Financial Expenses, Net. Financial expenses, net increased to \$826,000 for the year ended December 31, 2008 from \$145,000 for the year ended December 31, 2007. These financial expenses were primarily attributable to interest paid on short-term debt and long-term debt as well as exchange rate expenses, net and a loss on currency hedging transactions. The increase in financial expenses is primarily attributable to a loss on currency hedging transactions in 2008, while in 2007 we recorded a profit from such transactions.

Other Income, Net. We had other income, net of \$1,000 for the year ended December 31, 2008 and \$8,000 for the year ended December 31, 2007. Other income, net for the years ended December 31, 2008 and 2007 was attributable to the gain we recorded on the disposal of fixed assets.

Income Tax Expense. During the years ended December 31, 2007 and 2008, we did not record a net deferred tax asset and related tax benefit with respect to our net operating losses generated in Israel due to uncertainty about our 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 our financial results in such periods, the weak global economic climate, the fluctuations of the PCB industry and our history of losses. For the year ended December 31, 2008, we did not record a net deferred tax asset and related tax benefit with respect to the net operating losses of Kubatronik due to uncertainty about its ability to utilize such losses in the foreseeable future. We did not record any tax expense for the year ended December 31, 2007 with respect to Kubatronik as we utilized our tax loss carryforwards.

Non controlling interest. Non controlling interest results reflects the minority's interest of \$1,000 in Kubatronik's net loss for the year ended December 31, 2008, as compared to the minority's interest of \$4,000 in Kubatronik's net profit for the year ended December 31, 2007.

Impact of Currency Fluctuations and Inflation

Our reporting currency is the U.S. dollar. Our revenues are primarily denominated in the U.S. dollar, while our expenses are primarily denominated in NIS, U.S. dollars and Euros. As a result, fluctuations in rates of exchange between NIS and non-NIS currencies may affect our operating results and financial condition. In addition, the NIS value of our U.S. dollar or Euro denominated revenues are negatively impacted by the depreciation of the U.S. dollar and the Euro against the NIS. The average exchange rate for the NIS against the U.S. dollar was 9.4% higher in 2009 than 2008 and the average exchange rate for the NIS against the Euro was 3.8% higher in 2009 than 2008, which had a positive impact on our operating results in 2009. The average exchange rate for the NIS against the dollar was 12.7% lower in 2008 than in 2007 and the average exchange rate for the NIS against the Euro was 6.4% lower in 2008 than 2007, which had a significant adverse effect on our operating results in 2008.

The following table sets forth, for the periods indicated, (i) depreciation or appreciation of the NIS against the most important currencies for our business, the U.S. dollar and Euro, between December 31 each year and the year before, and (ii) inflation as reflected in changes in the Israeli consumer price index.

| | Year Ended December 31, | | | | | | | | | |
|------------------------------|-------------------------|----|------|----|------|----|------|----|------|----|
| | 2009 | | 2008 | | 2007 | | 2006 | | 2005 | |
| U.S. dollar | (0.7 |)% | (1.1 |)% | (9.0 |)% | (8.2 |)% | 6.8 | % |
| Euro | 2.7 | % | (6.4 |)% | 1.7 | % | 2.1 | % | (7.3 |)% |
| Israeli consumer price index | 3.9 | % | 3.8 | % | 3.4 | % | (0.1 |)% | 2.4 | % |

We have engaged external consultants to assist us to manage our foreign exchange risk. From time to time in the past we have used currency hedging instruments in order to partially protect ourselves from currency fluctuation and inflation risks and may use hedging instruments from time to time in the future.

- 25 -

Because exchange rates between the NIS and the dollar and Euro fluctuate continuously, exchange rate fluctuations, particularly larger periodic devaluations, may have an impact on our profitability and period-to-period comparisons of our results. We cannot assure you that in the future our results of operations may not be materially adversely affected by currency fluctuations.

Conditions in Israel

We are incorporated under the laws of, and our executive offices, principal production facilities and research and development facilities are located in, the State of Israel. See Item 3D “Key Information – Risk Factors – Risks Relating to Our Location in Israel” for a description of governmental, economic, fiscal, monetary or political policies or factors that have materially affected or could materially affect our operations.

Trade Relations

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 member of the World Trade Organization and is a signatory to the General Agreement on Tariffs and Trade. In addition, Israel has been granted preferences under the Generalized System of Preferences from the United States, Australia, Canada and Japan. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs.

Israel and the European Union Community, known now as the European Union, concluded a Free Trade Agreement in July 1975 that confers some advantages with respect to Israeli exports to most European countries and obligated Israel to lower its tariffs with respect to imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area. The Free Trade Area has eliminated all tariff and some 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 the EFTA, 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 a redefinition of rules of origin and other improvements, such as allowing 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 Russia, China, India, Turkey and other nations in Eastern Europe and Asia.

Effective Corporate Tax Rate

Israeli companies are generally subject to income tax on their taxable income. The applicable rate for 2009 was 26%. The rate was reduced to 25% in 2010, and will be further reduced to 24% in 2011, 23% in 2012, 22% in 2013, 21% in 2014, 20% in 2015 and 18% in 2016 and thereafter..

However, one of our production facilities qualifies as a “benefited enterprise” under the Law for the Encouragement of Capital Investments, 1959, as amended. Subject to certain time limitations, income derived from such benefited enterprise will be subject to lower tax rates of up to 25%. For additional information see Item 10E. “Additional Information – Taxation - Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959” and Note 15A to our consolidated financial statements.

As of December 31, 2009, we had approximately \$17.5 million in tax loss carryforwards in Israel, which can be offset against future income in Israel without time limitation. In Israel, we have received final tax assessments through the 1995 tax year and the tax assessments we received for the 1996-2004 tax years are considered final due to the statute of limitations. Our principal foreign subsidiary, Kubatronik has received final tax assessments through the 2006 tax year, and as of December 31, 2009 had approximately Euro 716,000 (approximately \$1.3 million, based on

the U.S. dollar/Euro exchange rate as at December 31, 2010) in tax loss carryforwards in Germany. We do not believe, on a “more likely than not” basis, that we will be able to utilize the tax asset attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and to our loss carry-forwards in the foreseeable future. Therefore we have recorded a full valuation allowance on the deferred tax asset in respect of these differences and loss carry-forwards.

- 26 -

B. Liquidity and Capital Resources

Historically, we have financed our operations through cash generated by operations, shareholder loans, long-term and short-term bank loans, borrowings under available credit facilities, a convertible note issued to our major shareholder and the proceeds from our initial public offering in 1997 (approximately \$5.8 million).

In May 2007, Mr. Josef Maiman elected to convert a convertible note held of record by Merhav for an aggregate 985,796 ordinary shares. As a result, Mr. Maiman's beneficial ownership interest increased to 1,589,440 ordinary shares, representing approximately 24.1% of our then outstanding shares, of which 989,696 are held of record by Merhav and 599,744 are held of record by Integral.

Cash Flows

The following table summarizes our cash flows for the periods presented:

| | Year ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2009 | 2008 | 2007 |
| | (\$ in thousands) | | |
| Net cash provided by operating activities | \$ 963 | \$ 1,187 | \$ 1,410 |
| Net cash used in investing activities | (600) | (797) | (3,254) |
| Net cash provided by (used in) financing activities | (619) | (1,472) | 2,305 |
| Effect of translation adjustments | (42) | 171 | (24) |
| Net increase (decrease) in cash and cash equivalents | (298) | (911) | 437 |
| Cash and cash equivalents at beginning of year | 1,556 | 2,467 | 2,030 |
| Cash and cash equivalents at end of year | 1,258 | 1,556 | 2,467 |

Net cash provided by operating activities was \$963,000 for the year ended December 31, 2009. This amount was primarily attributable to fixed asset depreciation and amortization of \$2.0 million and a decrease in current assets, net of \$866,000 (comprised of a decrease in trade receivables of \$391,000, an increase in other receivables and prepaid expenses of \$35,000 and a decrease in inventories of \$510,000). This amount was offset in part by a net loss of \$880,000, a decrease in trade payables of \$763,000, a decrease in other liabilities and accrued expenses of \$169,000 and a decrease in employee severance benefits, net of \$104,000. Net cash provided by operating activities was \$1.2 million for the year ended December 31, 2008. This amount was primarily attributable to fixed asset depreciation of \$2.2 million, a goodwill impairment charge of \$379,000, a decrease in trade receivables of \$894,000, a decrease in other receivables and prepaid expenses of \$553,000 and an increase in other liabilities and accrued expenses of \$531,000. This amount was partially offset by a net loss of approximately \$2.5 million, an increase in trade payables of \$885,000 and an increase of \$140,000 in inventories. Net cash provided by operating activities was \$1.4 million for the year ended December 31, 2007. This amount was primarily attributable to a decrease in trade receivables of 342,000, fixed asset depreciation of \$2.3 million and an increase in trade payables of \$152,000. This amount was partially offset by a net loss of \$301,000, an increase in other receivables and prepaid expenses of \$422,000 and a decrease in other liabilities and accrued expenses of \$ 271,000.

Net cash used in investing activities was \$600,000 for the year ended December 31, 2009, \$797,000 for the year ended December 31, 2008 and \$3.3 million for the year ended December 31, 2007. Net cash used in investing activities for the years ended December 31, 2009, 2008 and 2007 was primarily for the purchase of fixed assets for our production lines and expansion of our manufacturing facilities.

Net cash used in financing activities was \$619,000 for the year ended December 31, 2009, which was primarily attributable to repayments of long-term loans, net of \$1.1 million and the repayment of credit from fixed assets payable of \$140,000, which amounts were partially offset by an increase in short-term bank credit of \$648,000. Net cash used in financing activities was \$1.5 million for the year ended December 31, 2008, which was primarily attributable to the repayment of \$1.6 million of long-term loans and the repayment of \$542,000 of credit from fixed asset payables. This amount was partially offset by new long-term loans of \$669,000 from our banks. Net cash provided by financing activities was \$2.3 million for the year ended December 31, 2007, which was primarily attributable to new long-term loans of \$ 3.0 million from our banks and an increase of short-term credit from our banks, which was partly offset by the repayment of \$1.8 million of long-term loans and the repayment of \$200,000 of credit from fixed asset payables.

As of December 31, 2009, we had \$1.3 million in cash and cash equivalents and working capital deficit of \$2.0 million, as compared to \$1.6 million in cash and cash equivalents and working capital deficit of \$1.9 million at December 31, 2008 and \$2.5 million in cash and cash equivalents and working capital of \$733,000 at December 31, 2007.

As of December 31, 2009, the following revolving lines of credit and long-term loans were outstanding:

- a revolving line of credit of approximately \$1.5 million with Bank Hapoalim B.M. Of such amount, \$110,000 is linked to the U.S. dollar and \$1.4 million is not linked.
- long-term loans from Bank Hapoalim B.M. aggregating \$1.4 million. Of such amount, \$335,000 is linked to the Israeli consumer price index and \$1.0 million is not linked.
 - a revolving line of credit of approximately \$2.2 million with Israel Discount Bank Ltd, which is not linked.
- long-term loans from Israel Discount Bank Ltd. in the aggregate amount of \$2.4 million. Of such amount, \$83,000 is linked to the Israeli consumer price index, \$809,000 is linked to the U.S. dollar and \$1.5 million is not linked.
- a revolving line of credit of approximately \$1.0 million with First International Bank of Israel Ltd, which is not linked.
- long-term loans from suppliers of fixed assets in the aggregate amount of \$152,000, which is linked to the Euro.

Our credit lines and short-term loans bear annual interest as follows:

- linked to the Prime rate - from Prime+1.75% to Prime+2.5%
- linked to the U.S. dollar - LIBOR+2%

Our long-term loans bear annual interest as follows:

- linked to the Israeli consumer price index - from 4.5% to 6.5%
- linked to the U.S. dollar - from LIBOR+1.88% to LIBOR+2.3%
- linked to the Prime rate - from Prime+0.75% to Prime+2.0%
- non-linked - from 7.6% to 8.4%

The borrowings from our banks are secured by specific liens on certain assets, by a first priority charge on the rest of our now owned or after acquired assets and by a fixed lien on goodwill (intangible assets) and insurance rights (rights to proceeds on insured assets in the event of damage). In addition, the agreements with our banks prohibit us from selling or otherwise transferring any assets except in the ordinary course of business or from placing a lien on our assets without the banks' consent. Financial covenants in respect of our credit facilities and long-term debt with one of our banks require us to maintain the higher of shareholders' equity of NIS 17.5 million (\$4.6 million) or 17% of our consolidated total assets. For this purpose, shareholders' equity excludes certain intangible assets and prepaid expenses (except insurance premiums). As of December 31, 2009, we were not in compliance with such covenants. However, in April 2010, the bank granted us a waiver, stating that the bank would not take any measures against us arising from the breach of such covenants until the release of our financial statements for December 31, 2010, at which time we must return to compliance. The bank further clarified that our compliance with the financial covenants would be measured annually based on the audited financial statements for December 31, each year. Financial covenants in respect of our credit facilities and long-term debt with another bank require us to maintain the higher of shareholders' equity, excluding certain intangible assets and prepaid expenses (except insurance premiums), of NIS 24.0 million (\$6.4 million) or 23% of our total assets (on a non-consolidated basis). As of December 31, 2009, we were not in compliance with such covenants. However, in April 2010, the bank granted us a waiver, reducing the covenants for the higher of shareholders' equity, excluding certain intangible assets and prepaid expenses (except insurance premiums) to NIS 16 million (\$4.2 million) or 17% of our total assets (on a non-consolidated basis). The bank further clarified that our compliance with the financial covenants would be measured annually based on the audited financial statements for December 31, each year. We have developed a work plan for 2010 which, if its results are achieved, would facilitate our being in compliance with our financial covenants with the banks at December 31, 2010 (see Item 5A. "Operating and Financial Review and Prospects - Operating Results - Overview"); however we cannot assure you that we will be able to maintain compliance with such covenants in the future.

Capital expenditures on a cash flow basis for the years ended December 31, 2009 and 2008 were approximately \$600,000 and \$797,000, respectively. Our capital expenditures in such periods mainly related to our investments in production and manufacturing equipment, and leasehold improvements. As of December 31, 2009 we had existing commitments for capital expenditures in the aggregate amount of \$561. We intend to finance our 2010 capital expenditures with suppliers' credit and from operational cash flow; however, such financing may not be available, or, if available, may not be on terms favorable to us. Our principal commitments consist of obligations outstanding under our bank loans and credit facilities, suppliers' credit and operating leases.

We expect to finance our 2010 budget from operational cash flow, revolving new bank credit lines and long-term bank loans, and supplier financing. In April 2010, two of our banks agreed to a deferral of all the principal payments due for the months April through July 2010 and 80% of the principal payments due for the months August through December 2010. We are obligated to repay the deferred payment amounts over a three-year period with one bank, and two to three-year period with another bank, beginning January 2011. Interest will be payable regularly. A third bank reduced our line of credit by approximately \$400,000 over the course of 2010.

Although we anticipate that these capital resources will be adequate to satisfy our liquidity requirements through 2010, our liquidity could be negatively affected by a decrease in demand for our products, including the impact of changes in customer buying that may result from the general economic downturn, the stability of the U.S. dollar/NIS exchange rate, our results of operations, our suppliers' payment terms, our customers' demand for extending their payment terms and other factors detailed in Item 3D "Key Information - Risk Factors." If available liquidity is not sufficient to meet our operating and debt service obligations as they come due, we would need to pursue alternative financing arrangements or reduce expenditures to meet our cash requirements through 2010. However, such additional financing may not be available to us or, if available, may not be obtained on terms favorable to us, and there is no assurance that we would be able to reduce discretionary spending to provide the required liquidity.

C. Research and Development, Patents and Licenses

We generally do not engage in significant research and development.

In 2005, we were granted membership in OptiPac, a consortium within the framework of the MAGNET program of the Office of the Chief Scientist of the Ministry of Industry and Trade of the State of Israel, or the OCS. OptiPac was created specifically to develop generic optical packaging technologies for the microelectronics sector, technologies that are critically important to the communications industry. Under the terms of the consortium, each member of the consortium received an advance for its research and development costs for a specific research and development project assigned to it by the consortium. The Office of the Chief Scientist reimburses 66% of the approved research and development expenses, less certain consortium expenses. These reimbursements are contingent upon our submitting periodic reports prepared in accordance with the requirements of the OCS. We are not required to pay the OCS royalties with respect to this grant. The OptiPac program was concluded in July 2007. In 2007, we incurred \$167,000 in research and development expenses in connection with our membership in OptiPac, of which \$93,000 were reimbursed to us by the OCS in accordance with the terms of the OptiPac consortium. In connection with the conclusion of the OptiPac consortium and the distribution of reserve funds held by the OCS, we received a final reimbursement of \$100,000 in 2008.

D. Trend Information

From the third quarter of 2007 through the third quarter of 2008, we experienced growth in our revenues, primarily as a result of the implementation of our strategy to focus our marketing efforts in the high end of the PCB market, mainly in the flex-rigid PCB market. From the fourth quarter of 2008 through 2009, the crisis in the financial and credit markets that evolved into a global recession had an impact on customers' inventory management and capital spending, which had an adverse affect on our revenues in the fourth quarter of 2008 and in 2009.

Our backlog at December 31, 2009 was approximately \$6.5 million compared to a backlog of approximately \$7.1 million at December 31, 2008. We include in our backlog all purchase orders scheduled for delivery within the next 12 months, although the majority of the backlog typically is scheduled for delivery within 45 days. For a variety of reasons, including the timing of orders, delivery intervals, customer and product mix and the possibility of customer changes in delivery schedules, backlog as of any particular date may not be a reliable measure of sales for any succeeding period. Cancellation charges generally vary depending upon the time of cancellation and, therefore, substantially all of our backlog may be subject to cancellation without penalty.

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 as of December 31, 2009.

| Contractual Obligations | Total | Payments due by period (\$ in thousands) | | | |
|--|---------------|---|--------------|--------------|----------------------|
| | | less than 1 year | 1-3 years | 3-5 years | more than 5 years |
| Short-term bank credit (1) | 4,362 | 4,362 | | | |
| Long-term debt obligations (1) | 3,990 | 1,373 | 2,320 | 284 | 13 |
| Operating lease | 5,566 | 833 | 1,666 | 1,507 | 1,560 |
| Other contractual obligations | 1,148 | 578 | 562 | 8 | -- |
| Purchase obligations | 1,302 | 1,302 | -- | -- | -- |
| Other short-term liabilities reflected on the company's balance sheet (2) | 3,558 | 3,558 | -- | -- | -- |
| Other long-term liabilities reflected on the company's balance sheet | 1,440 | -- | -- | -- | 1,440 |
| Estimate of interest payments on long-term debt obligations (3) | 336 | 116 | 195 | 24 | 1 |
| Total | 21,702 | 12,122 | 4,743 | 1,823 | 3,014 |

(1) For information on the interest rates of our short-term bank credit and long-term debt obligations, see Item 5B. "Operating and Financial Review and Prospects - Liquidity and Capital Resources."

(2)

Includes \$240,000 reflecting the estimated net value of our liability attributable to Mr. Kubat's put option relating to his 24% ownership interest in Kubatronik under the agreement relating to the acquisition of our 76% ownership interest in Kubatronik in June 2002. Under U.S. GAAP, such an arrangement gives rise to a derivative instrument, which must be marked to market every reporting period.

- (3) The estimate of interest payments on long-term debt obligations is based on current interest rates as of December 31, 2009 (including current variable rates on the existing debt obligations) and on the current volume of debt obligations, assuming loan repayment in future years as disclosed in Note 9 to the consolidated financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Set forth below are the name, age, principal position and a biographical description of each of our directors and executive officers:

| Name | Age | Position |
|--------------------------------|-----|---|
| Nissim Gilam(1)(2) | 71 | Chairman of the Board of Directors |
| Arieh Reichart | 56 | President and Chief Executive Officer |
| Amnon Shemer | 51 | Vice President, Finance and Chief Financial Officer |
| Dan Eshed | 59 | Senior Vice President, Subsidiaries |
| Eli Dvora | 53 | Vice President, Operations |
| Shay Shahar | 48 | Vice President, Marketing and Sales |
| Roberto Tulman | 51 | Vice President, Technologies and Chief Technology Officer |
| Shlomo Danino | 47 | Vice President, Engineering |
| Vardit Dekel | 46 | Vice President, Human Resources |
| Avi Gal | 47 | Vice President, 5S and Chief Information Officer |
| Eva Zilberleib | 58 | Vice President, Quality Assurance and Product Marketing Director |
| James Barry | 51 | President of Eltek USA Inc. |
| David Banitt(1)(3) | 58 | Independent Director |
| Eytan Barak(1)(3) | 65 | Outside Director |
| Josef Maiman | 64 | Director |
| Amit Mantsur | 39 | Director |
| Erez Meltzer | 52 | Director |
| Eitan Popper | 32 | Director |
| Ophira Rosolio-Aharonson(1)(3) | 60 | Outside Director |
| Joseph Yerushalmi | 71 | Director |

(1) Member of the Executive Committee

(2) Member of the Compensation Committee

(3) Member of the Audit Committee

Professor Joseph Yerushalmi, a Class I director, will serve as a director until our 2012 annual general meeting of shareholders. Messrs. David Banitt and Eitan Popper, Class II directors, will serve as directors until our 2010 annual

general meeting of shareholders. Messrs. Josef A. Maiman, Amit Mantsur, Erez Meltzer and Nissim Gilam, Class III directors, will serve as directors until our 2011 annual general meeting of shareholders. Ms. Ophira Rosolio-Aharonson was elected to serve as an outside director at our 2009 annual general meeting of shareholders for a second three-year term, pursuant to the provisions of the Israeli Companies Law, following which the service of Ms. Rosolio-Aharonson as an outside director may not be renewed. Mr. Eytan Barak was elected to serve as an outside director at our 2008 annual general meeting of shareholders for an initial three-year term, pursuant to the provisions of the Israeli Companies Law, following which the service of Mr. Barak as an outside director may be renewed for one additional three-year term.

Nissim Gilam has served as chairman of our board of directors since December 1, 1998, he has served as a director since January 1996, and previously held office as a director and our chief executive officer during the period of January 1990 through March 1991. Since April 2002, Mr. Gilam has been self-employed. Mr. Gilam is also a member of the board of directors of Israel Steel Corporation, Eliyaho Insurance Company and Alben Properties and Investments Ltd. From September 1993 until March 2002, Mr. Gilam served as managing director of Ney Agencies Ltd., an Israeli company engaged as a sales agent of raw materials and machinery sold by trading companies. From September 1987 through September 1993, Mr. Gilam served as vice president-finance of Merhav M.N.F. Ltd., an Israeli company that constructs turnkey projects in, among other fields, refineries, energy and agriculture.

Arieh Reichart joined us in September 1984 as our chief financial officer and assumed the position of president and chief executive officer in May 1991. Mr. Reichart holds a B.A. degree in Economics and M.B.A. degree from Bar-Ilan University.

Amnon Shemer joined us in February 2004 as vice president-finance and chief financial officer. From January 2003 until November 2003, Mr. Shemer served as managing director of Mea Control Transfer Ltd., a company that provides investment banking services. From June 1995 until August 2002, Mr. Shemer was vice president of finance for Mentergy Ltd., a publicly-traded company that provides e-learning solutions and satellite communications services. Mr. Shemer holds a B.A. degree in Economics and Business Administration and M.A. degree in Economics, both from Bar-Ilan University, and complementing accounting courses at Seneca College in Toronto, Canada.

Dan Eshed joined us in April 1987 as a production manager. During his employment with our company, Mr. Eshed has served as operation manager, senior vice president – technology and infrastructure and was appointed senior vice president – subsidiaries in February 2005. Mr. Eshed holds a B.Sc. degree in Management and Industrial Engineering from Ben Gurion University.

Eli Dvora joined us in 1993 after our merger with TPC Ltd. and served as our comptroller until August 1997. From September 1997 until February 1998, Mr. Dvora was self-employed. In March 1998, Mr. Dvora rejoined our company and in August 1999, was appointed as our vice president - operations. Mr. Dvora holds a B.A. degree in Economics and M.B.A. degree, both from Bar Ilan University.

Shay Shahar was appointed as our Vice President, Marketing and Sales in December 2009. Mr. Shahar joined Eltek in July 1992 and since such time has held various positions in our Marketing and Sales department, from Regional Sales Manager to Corporate Sales Director, and has been appointed to the current position of VP Marketing and Sales in December 2009. Mr. Shahar holds an Electronic Practical Engineer degree from Ort Technology College in Israel, a B.Sc. degree in General Business from Champlain College, Burlington, Vermont and MSM degree in Management from the Polytechnic University, New York.

Roberto Tulman joined us in August 2005 as vice president, technologies and chief technology officer. During the 22 years prior to joining our company, Mr. Tulman served in the electronic research department of the Israel Defense Forces, where he held various research and development and management positions, and managed the printed circuits division during his last eight years of service. Mr. Tulman holds a B.Sc. degree (Cum Laude) in Chemistry, M.Sc degree in Chemistry (Electrochemistry) and MBA degree, all from Tel-Aviv University.

Shlomo Danino joined us in August 1985. During his employment with our company, Mr. Danino has served as product engineering manager, and was appointed as vice president, engineering in February 1999. Mr. Danino holds a B.Sc. degree in Mechanics from Ort Technology College in Israel and a B.Sc. degree in general business from Champlain College, in Burlington, Vermont.

Vardit Dekel joined us in August 2005 as vice president, human resources. From May 2001 until July 2005, Ms. Dekel served as Human Resources manager of Chefa Ltd., an Israeli group engaged in food services for airlines, business and industry companies. During the 12 years prior to joining Chefa Ltd., Ms. Dekel served at Israel Elwyn's Residential Center for people with special needs, where she served in several management positions, including human resources and training manager and as its manager. Ms. Dekel holds a B.A degree in special education and MA degree in organizational sociology and organizational counseling, both from The Hebrew University of Jerusalem.

Avi Gal was appointed as our Vice President, 5S and Chief Information Officer in December 2009. Mr. Gal joined us in August 1986 as an Industrial Engineer in Shop floor Control department. In 1988, Mr. Gal established our IT department and led the adaptation of a generic ERP system to the PCB sector. Between 1994 and 2005, Mr. Gal

managed his own business, mainly in developing and implementing an ERP System for the Maintenance, Repair and Overhaul for the aviation sector. In 2005, Mr. Gal returned to Eltek as Chief Information Officer for Eltek Group. Mr. Gal holds a B.Sc. degree in Management and Industrial Engineering from the Technion - Israel Institute of Technology.

- 32 -

Eva Zilberleib was appointed as our Vice President, Quality Assurance and Product Marketing Director in December 2009. Ms. Zilberleib joined us in January 1979 and during her over 30 years of employment with our company, she has served as final inspection and quality assurance lab manager and technical customer support manager. Ms Zilberleib holds B.Sc degree in Chemistry from the Hebrew University of Jerusalem.

Jim Barry joined us on August 6, 2008 as the president of Eltek USA Inc. Prior to that and from May 2003, Mr. Barry served as a consultant to us in a sales, marketing and applications engineering role. Mr. Barry has over 30 years experience within the PCB industry. Mr. Barry has held management positions within Engineering, Sales and Operations for some of the top PCB producers. Mr. Barry has attended Northern Essex Community College and has focus coursework in mechanical engineering, failure analysis and materials engineering.

David Banitt, an independent director, has served as a director since March 1997 and is a member of our audit committee. In January 2009, Mr. Banitt founded a company engaged in industrial wastewater treatment. From January 2007 until January 2009 Mr. Banitt founded and served as the chief operating officer of HelioFocus Ltd., a company that develops solar thermal energy generation products. From January 2006 until January 2007, Mr. Banitt served as the chief executive officer of YDesign Ltd., a company involved in the development of consumer products. From July 2005 until January 2006, Mr. Banitt was self-employed, providing consulting services in marketing, primarily in the PCB market. From August 2001 until July 2005, Mr. Banitt served as chief executive officer and member of the board of directors of Nano-OR Ltd., an Israeli start-up company engaged in the development of electro-optics systems. Prior to joining Nano-OR Technology Ltd. and from January 2001, Mr. Banitt was self-employed. From September 1997 until January 2001, Mr. Banitt served as President and member of the board of directors of Exsight Electro Optical Systems Ltd., an Israeli start-up company engaged in the development of electro-optics systems for the printed circuit boards industry. From 1993 until 1997, Mr. Banitt served as general manager of Nitzanim Initiative Center. From 1985 until 1992, Mr. Banitt served as Vice President of Marketing of Optrotech Ltd., an Israeli company that provided optical inspection systems to the PCB industry. Mr. Banitt holds a B.Sc. degree in Electronics Engineering from Tel Aviv University.

Eytan Barak was elected as an outside director (within the meaning of the Israeli Companies Law) in December 2008 and is a member of our audit committee. He is joint owner and chief executive officer of Dovrat - Barak, Investments in Advanced Technologies Ltd., a company that provides financial resources and management assistance to start-up companies. Mr. Barak also serves as a member of the board of directors, audit committee and investment committee of various companies, including ICTS International N.V. (traded on the OTC Bulletin Board (OTCBB: ICTS)), Mer Telemanagement Solutions Ltd. (listed on the NASDAQ Capital Market (NASD:MTSL)), Elgo Irrigation Ltd (listed on the Tel Aviv Stock Exchange), Menora-Mivtachim Mutual Funds and Meshulam Levinstein Contracting & Engineering Ltd. (listed on the Tel Aviv Stock Exchange). From 1997 to 2006, Mr. Barak served as a member of the board of directors, audit committee and investment committee of various Israeli companies. From 1973 to 1997, Mr. Barak was with the Israel Corporation Ltd., initially serving as its chief financial officer and corporate controller, and also served as chairman or member of the boards of directors of some of its subsidiaries. From 1967 until 1973, Mr. Barak was associated with Kesselman & Kesselman, the Israeli member firm of PricewaterhouseCoopers International Limited. Mr. Barak has been a Certified Public Accountant (Israel) since 1971 and holds a B.A. degree in accounting and social science from Tel Aviv University and a degree in accounting from the Hebrew University of Jerusalem.

Josef Maiman has served as a director since July 1988. Mr. Maiman has served as president and chief executive officer of Merhav M.N.F. Ltd. since August 1972. Since October 2006, Mr. Maiman has served as the president and chief executive officer of Ampal American Israel Corporation, or Ampal, a public holding company listed on the NASDAQ Global Market, and has served as the chairman of its board of directors since April 2002. Mr. Maiman also serves as the chairman of the board of directors of Israel 10 Channel Ltd., a commercial television station in Israel, chairman of the board of directors of 012 Smile Telecom Ltd., and a director of Merhav Agro Ltd. Mr. Maiman is also a member of the Board of Trustees of the Tel Aviv University, Chairman of the Israeli Board of the Jaffee Center

for Strategic Studies at Tel Aviv University, a member of the Board of Governors of Ben Gurion University, and the Chairman of the Board of Trustees of the International Policy Institute for Counter Terrorism. Mr. Maiman holds a B.A. degree in Economics from University of Texas and an M.A. degree in Economics from Cornell University.

- 33 -

Amit Mantsur has served as a director since August 2009. Mr. Mantsur has served as the Vice President – Investments of Ampal-American Israel Corporation, or Ampal, since March 2003. From September 2000 to December 2002, Mr. Mantsur served as Strategy and Business Development Manager at Alrov Group. From February 1997 to September 2000, Mr. Mantsur was a projects manager at the Financial Advisory Services of Somekh Chaikin, registered public accounting firm, a member firm of KPMG International. Mr. Mantsur holds a BA degree in Economics and Accounting and an MBA degree, both from Ben-Gurion University, and is a certified public accountant (Israel).

Erez Meltzer has served as a director since August 2009. Mr. Meltzer has served as the Chief Executive Officer of Gadot Chemical Tankers and Terminals Ltd., or Gadot, a wholly-owned subsidiary of Ampal, since November 2008. Mr. Meltzer also serves as a director and Executive Vice Chairman of Gadot and as a director of Ampal. From 2006 to 2007, Mr. Meltzer served as the Chief Executive Officer of Africa Israel Group. From 2002 to 2006, Mr. Meltzer served as the President and Chief Executive Officer of Netafim Ltd. From 1999 to 2001, Mr. Meltzer served as the President and Chief Executive Officer of CreoScitex. Mr. Meltzer served as a colonel in the Israeli Defense Forces – Armored Corps. (reserves). Mr. Meltzer has served as the Chairman of the Lowenstein Hospital Friends Association since 1999 and is the honorary chairman of the Israeli Chapter of YPO (the Young Presidents Organization). Mr. Meltzer holds a BA degree in Economics and Business from the Hebrew University of Jerusalem and is a graduate of the Advance Management Program at Harvard Business School.

Eitan Popper has served as a director since December 2007. Mr. Popper has served as an executive assistant to the senior vice president of projects and as a project development executive in Merhav M.N.F Ltd. since 2003. In these positions, Mr. Popper participated in the evaluation and analysis of large scale energy and infrastructure projects worldwide and has been directly responsible for market and investment research within Merhav M.N.F Ltd. Prior thereto and from 2002, Mr. Popper served as a civil and environmental engineer in the Mexico City and San Francisco offices of URS Corporation, a global engineering and consulting company traded on the New York Stock Exchange. Mr. Popper holds a B.Sc. degree in civil engineering from the Universidad Iberoamericana of Mexico and M.Sc. degree in environmental engineering from Stanford University. Mr. Popper is currently enrolled in the MBA program (specializing in finance) of the Recanati School of Business of Tel Aviv University.

Ophira Rosolio-Aharonson was appointed as an outside director (within the meaning of the Israeli Companies Law) in December 2006 and is a member of our audit committee. Ms. Rosolio-Aharonson is a co-founder of Seagull Tech Inc. and KeyScan Inc. In addition, Ms. Rosolio-Aharonson serves as an executive director of several private and publicly traded companies, a strategic business consultant to high-technology companies and an advisor to venture capital firms in Israel and the United States. From 1992 through 1999, Ms. Rosolio-Aharonson served as the chief executive officer of Terra Computers, Inc. in the United States. From 1980 to 1989, Ms. Rosolio-Aharonson served as a senior executive, holding managerial positions, at Clal Ltd., an Israeli company publicly traded on the Tel Aviv Stock Exchange, including director, chief executive officer, chief operations officer and vice president of sales and marketing of Clal Ltd.'s subsidiaries. Ms. Rosolio-Aharonson holds a B.Sc. degree in applied mathematics and physics, and has completed courses required for a M.Sc. degree in bio-medical engineering, both from the Technion – Israel Institute of Technology and is a graduate of the executive business and management program of Tel Aviv University.

Professor Joseph Yerushalmi has served as a director since December 2003. Since January 1996, Professor Yerushalmi has served as a senior vice president in charge of the projects of Merhav M.N.F Ltd. Professor Yerushalmi serves as a member of the board of directors of Ampal Israel Corporation Ltd. From 1992 to 1996, Professor Yerushalmi served as vice president, projects development at Israel Chemicals Ltd., Israel's largest chemical concern. Between 1989 and 1992, Professor Yerushalmi was a visiting professor at the University of Pittsburgh. In 1980, Professor Yerushalmi founded PAMA (Energy Resources Development) Ltd. in Israel with the goal of commercial utilization of Israel oil shale reserves, and he served as its General Manager until 1989. From 1977 to 1980, Professor Yerushalmi was Technical Manager of the Coal Gasification Program of the Electric Power Research

Institute (EPRI) in Palo Alto, California. Between 1969 and 1977, Professor Yerushalmi was a professor of Chemical Engineering at the City College of New York where he pioneered in research in the field of alternative energy. Professor Yerushalmi holds a Ph.D. in Chemical Engineering from the City University of New York.

There are no family relationships between any of our directors and executive officers.

- 34 -

B. Compensation

The following table sets forth all compensation we paid with respect to all of our directors and executive officers as a group for the year ended December 31, 2009.

| | Salaries, fees, commissions and bonuses* | Pension, retirement and similar benefits |
|---|--|---|
| All directors and executive officers as a group (then consisting of 18 persons) | \$ 1,743,440 | \$ 154,143 |

During the year ended December 31, 2009, we paid each of our outside and independent directors an annual fee of \$8,900 and a per meeting attendance fee of \$570. During such period we paid Nissim Gilam, chairman of our board of directors, a management fee of \$5,000 per month and reimbursed him for various expenses that he incurred in connection with his service as chairman of the board of directors in an annual amount of \$3,024. We also provide Mr. Gilam with a company car and pay all expenses in connection therewith, which expenses amounted to \$12,410 in 2009.

As of December 31, 2009, our directors and executive officers as a group, consisting of 18 persons, did not hold any options.

C. Board Practices

Introduction

According to the Israeli Companies Law, the role of the board of directors is to formulate a company's policy and to supervise the chief executive officer and his acts. The management of our company is vested in our chief executive officer, who is appointed by our board of directors. According to our articles of association, our chief executive officer has the power to appoint our other executive officers who, together with our chief executive officer, are responsible for our day-to-day management. The board of directors may exercise any power of the company which was not assigned to another organ of the company by law or by the articles of association. The executive officers have individual duties as determined by our chief executive officer and board of directors.

Election of Directors

Our articles of association provide for a board of directors consisting of no less than three and no more than nine members or such other number as may be determined from time to time at a general meeting of shareholders, and the number of directors must be odd. Our board of directors is currently composed of nine directors.

Pursuant to our articles of association, our board of directors is divided into three classes (other than outside directors). Generally, at each annual meeting of shareholders one of such classes of directors is elected for a term of three years by a vote of the holders of a majority of the voting power represented and voting at such meeting. All the members of our board of directors (except the outside directors as detailed below) may be reelected upon completion of their term of office. Directors (other than outside directors) may be removed earlier from office by a resolution passed at a general meeting of our shareholders, provided that shareholders holding in the aggregate no less than forty-percent of our outstanding share capital vote in favor of such resolution. Our board of directors may temporarily fill vacancies in the board or add to their body until the next annual meeting of shareholders, provided that the total

number of directors will not exceed the maximum number permitted under our articles of association.

The board of directors of an Israeli public company is required to determine that at least one or more directors will have “accounting and financial expertise,” as defined by regulations promulgated under the Israeli Companies Law. Our board of directors determined, accordingly, that at least one director must have “accounting and financial expertise.” Our board of directors has further determined that Mr. Eytan Barak, (an outside director within the meaning of the Israeli Companies Law) has the requisite “accounting and financial expertise.”

- 35 -

We do not follow the requirements of the NASDAQ Marketplace Rules with regard to the nomination process of directors, and instead, we follow Israeli law and practice, in accordance with which our board of directors is authorized to recommend to our shareholders director nominees for election. See Item 16G. "Corporate Governance."

Outside and Independent Directors

Outside Directors. Under the Israeli Companies Law, Israeli companies whose shares have been offered to the public are required to appoint at least two outside directors. The Israeli Companies Law provides that a person may not be appointed as an outside director if the person, or the person's relative, partner, employer or an entity under that person's control, has or had during the two years preceding the date of appointment any affiliation with the company, or any entity controlling, controlled by or under common control with the company. The term "relative" means a spouse, sibling, parent, grandparent, child or child of spouse or spouse of any of the above. The term "affiliation" includes an employment relationship, a business or professional relationship maintained on a regular basis, control and service as an office holder excluding service as an outside director of a company that is offering its shares to the public for the first time. In addition, no person may serve as an outside director if the person's position or other activities create or may create a conflict of interest with the person's responsibilities as director or may otherwise interfere with the person's ability to serve as director. If, at the time an outside director is appointed all members of the board of directors are of the same gender, then that outside director must be of the other gender. A director of one company may not be appointed as an outside director of another company if a director of the other company is acting as an outside director of the first company at such time.

At least one of the outside directors elected must have "accounting and financial expertise" and any other outside director must have "accounting and financial expertise" or "professional qualification," as such terms are defined by regulations promulgated under the Israeli Companies Law. Our outside director, Mr. Eytan Barak, has "accounting and financial expertise" and our other outside director, Ms. Ophira Rosolio-Aharonson, has "professional qualification," as such terms are defined by regulations promulgated under the Israeli Companies Law.

Outside directors are elected by shareholders. The shareholders voting in favor of their election must include at least one-third of the shares of the non-controlling shareholders of the company who voted on the matter (not including abstaining votes). This minority approval requirement need not be met if the total shareholdings of those non-controlling shareholders who vote against their election represent 1% or less of all of the voting rights in the company. Outside directors serve for a three-year term, which may be renewed for only one additional three-year term. Outside directors can be removed from office only by the same special percentage of shareholders as can elect them, or by a court, and then only if the outside directors cease to meet the statutory qualifications with respect to their appointment or if they violate their duty of loyalty to the company.

Each committee that is authorized to exercise powers that are usually vested in the board of directors must include at least one outside director and the audit committee must include all of the outside directors. An outside director is entitled to compensation as provided in regulations promulgated under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

Ms. Ophira Rosolio-Aharonson was elected to serve as an outside director at our 2006 annual general meeting of shareholders for an initial three-year term and was elected to serve as an outsider director at our 2009 annual general meeting of shareholders for a second three-year term, pursuant to the provisions of the Israeli Companies Law, following which the service of Ms. Rosolio-Aharonson as an outside director may not be renewed. Mr. Eytan Barak was elected to serve as an outside director at our 2008 annual general meeting of shareholders for an initial three-year term, pursuant to the provisions of the Israeli Companies Law, following which the service of Mr. Barak as an outside director may be renewed for one additional three-year term.

Independent Directors. In general, NASDAQ Marketplace Rules require that the board of directors of a NASDAQ-listed company have a majority of independent directors and its audit committee must have at least three members and be comprised only of independent directors, each of whom satisfies the respective “independence” requirements of NASDAQ and the Securities and Exchange Commission. However, on June 9, 2005, we provided NASDAQ with a notice of non-compliance with respect to (among other things) the requirement to maintain a majority of independent directors, as defined under NASDAQ Marketplace Rules. Instead, we follow Israeli law and practice which requires that we appoint at least two outside directors, within the meaning of the Israeli Companies Law, to our board of directors. (See Item 16G. “Corporate Governance.”) In addition, in accordance with the rules of the Securities and Exchange Commission and NASDAQ, we have the mandated three independent directors, as defined by the rules of the Securities and Exchange Commission and NASDAQ, on our audit committee.

Pursuant to a recent amendment to the Israeli Companies Law, an Israeli company whose shares are publicly traded may elect to adopt a provision in its articles of association pursuant to which a majority of its board of directors will be comprised of individuals complying with certain independence criteria prescribed by the Israeli Companies Law. We have not included such a provision in our articles of association.

Our board of directors has determined that each of Messrs. Banitt and Barak and Ms. Rosolio-Aharonson qualifies as an independent director under the requirements of the Securities and Exchange Commission and NASDAQ.

Committees of the Board of Directors

Executive Committee

Our board of directors established an executive committee, which is responsible for monitoring the implementation of our annual work plan that is adopted each year by our board of directors, and recommending to our board of directors future strategies for our company and monitoring their implementation. Messrs. Gilam, Banitt and Barak and Ms. Rosolio-Aharonson are the current members of our executive committee. Our executive committee meets approximately every quarter with our Chief Executive Officer.

Audit Committee

Under the Israeli Companies Law, the board of directors of any public company must establish an audit committee. The audit committee must consist of at least three directors and must include all of the outside directors. The audit committee may not include the chairman of the board of directors, any director employed by the company or providing services to the company on an ongoing basis, or a controlling shareholder or any of the controlling shareholder's relatives.

In addition, the NASDAQ Marketplace Rules require us to establish an audit committee comprised of at least three members, all of whom must be independent directors, each of whom is financially literate and satisfies the respective "independence" requirements of the Securities and Exchange Commission and NASDAQ and one of whom has accounting or related financial management expertise at senior levels within a company.

Our audit committee assists our board of directors in overseeing the accounting and financial reporting processes of our company and audits of our financial statements, including the integrity of our financial statements, compliance with legal and regulatory requirements, our independent registered public accountants' qualifications and independence, the performance of our internal audit function and independent registered public accountants, finding any defects in the business management of our company and proposing to the board of directors ways to correct such defects, approving related-party transactions as required by Israeli law, and such other duties as may be directed by our board of directors. The audit committee may consult from time to time with our independent auditors and internal auditor with respect to matters involving financial reporting and internal accounting controls.

Our audit committee consists of three members of our board of directors who satisfy the respective "independence" requirements of the Securities and Exchange Commission, NASDAQ and Israeli law for audit committee members. Our audit committee is currently composed of Messrs. Banitt and Barak and Ms. Rosolio-Aharonson. The audit committee meets at least once each quarter.

Compensation Committee

Our board of directors established a compensation committee, which is responsible for the administration of our 2000 Stock Option Plan, which has a term of ten years and will terminate on July 31, 2010 (see Item 6.E., "Directors, Senior

Management and Employees - Share Ownership - Stock Option Plans”). Mr. Gilam is currently the sole member of our compensation committee. This committee has not been active for several years. The grant of options to our office holders requires certain corporate approvals (see Item 6C. “Directors, Senior Management and Employees – Board Practices – Approval of Related Party Transactions Under Israeli Law”).

- 37 -

Internal Audit

The Israeli Companies Law also requires the board of directors of a public company to appoint an internal auditor nominated by the audit committee. The internal auditor must meet certain statutory requirements of independence. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business practice. Mr. Daniel Shapira, Certified Public Accountant (Israel), serves as our internal auditor.

Directors' Service Contracts

We do not have any service contracts with our directors, except for the compensation we pay and company car we provide to Mr. Nissim Gilam in connection with his services as Chairman of our board of directors. See Item 6B. "See Item 6C. – "Directors, Senior Management and Employees - Compensation."

There are no arrangements or understandings between us and any of our subsidiaries, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company or any of our subsidiaries.

Approval of Related Party Transactions Under Israeli Law

Fiduciary Duties of Office Holders

The Israeli Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An "office holder" is defined in the Israeli Companies Law as a director, general manager, chief business manager, deputy general manager, vice general manager, other manager directly subordinate to the general manager or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act at a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to utilize reasonable means to obtain (i) information regarding the business feasibility of a given action brought for his approval or performed by him by virtue of his position and (ii) all other information of importance pertaining to the foregoing actions. The duty of loyalty requires that an office holder act in good faith and for the benefit of the company, including (i) avoiding any conflict of interest between the office holder's position in the company and any other position he holds or his personal affairs, (ii) avoiding any competition with the company's business, (iii) avoiding exploiting any business opportunity of the company in order to receive personal gain for the office holder or others, and (iv) disclosing to the company any information or documents relating to the company's affairs that the office holder has received by virtue of his position as an office holder.

Disclosure of Personal Interests of an Office Holder; Approval of Transactions with Office Holders

The Israeli Companies Law requires that an office holder promptly, and no later than the first board meeting at which such transaction is considered, disclose any personal interest that he or she may have and all related material information known to him or her and any documents in their possession, in connection with any existing or proposed transaction relating to our company. In addition, if the transaction is an extraordinary transaction, that is, a transaction other than in the ordinary course of business, other than on market terms, or likely to have a material impact on the company's profitability, assets or liabilities, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the office holder or a relative (as such term is described above) is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors require approval by the board of directors, and exculpation, insurance and indemnification of, or an undertaking to, indemnify an office holder who is not a director requires both board of directors and audit committee approval. The compensation of office holders who are directors must be approved by our audit committee, board of directors and shareholders.

Some transactions, actions and arrangements involving an office holder (or a third party in which an office holder has an interest) must be approved by the board of directors or as otherwise provided for in a company's articles of association, however, a transaction that is adverse to the company's interest may not be approved. In some cases, such a transaction must be approved by the audit committee and by the board of directors itself, and under certain circumstances shareholder approval may be required. A director who has a personal interest in a transaction that is considered at a meeting of the board of directors or the audit committee may not be present during the board of directors or audit committee discussions and may not vote on the transaction, unless the transaction is not an extraordinary transaction or the majority of the members of the board or the audit committee have a personal interest, as the case may be. In the event the majority of the members of the board of directors or the audit committee have a personal interest, then the approval of the general meeting of shareholders is also required.

Disclosure of Personal Interests of a Controlling Shareholder; Approval of Transactions with Controlling Shareholders

The disclosure requirements that apply to an office holder also apply to a transaction in which a controlling shareholder of the company has a personal interest. The Israeli Companies Law provides that an extraordinary transaction with a controlling shareholder or an extraordinary transaction with another person in whom the controlling shareholder has a personal interest or a transaction with a controlling shareholder or his relative regarding terms of service and employment, must be approved by the audit committee, the board of directors and shareholders in that order. The shareholder approval for such a transaction must include at least one-third of the shareholders who have no personal interest in the transaction who voted on the matter (not including abstentions). The transaction can be approved by shareholders without this one-third approval if the total shareholdings of those shareholders who have no personal interest and voted against the transaction do not represent more than one percent of the voting rights in the company.

Under the Companies Regulations (Relief from Related Party Transactions), 5760-2000, promulgated under the Israeli Companies Law, as amended, certain extraordinary transactions between a public company and its controlling shareholder(s) do not require shareholder approval. In addition, under such regulations, directors' compensation and employment arrangements in a public company do not require the approval of the shareholders if both the audit committee and the board of directors agree that such arrangements are solely for the benefit of the company or if the directors' compensation does not exceed the maximum amount of compensation for outside directors determined by applicable regulations. Also, employment and compensation arrangements for an office holder that is a controlling shareholder of a public company do not require shareholder approval if certain criteria are met. The foregoing exemptions from shareholder approval will not apply if one or more shareholders holding at least 1% of the issued and outstanding share capital of the company or of the company's voting rights, objects to the use of these exemptions provided that such objection is submitted to the company in writing not later than fourteen days from the date of the filing of a report regarding the adoption of such resolution by the company. If such objection is duly and timely submitted, then the transaction or compensation arrangement of the directors will require shareholders' approval as detailed above.

The Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of the company. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a

tender offer if as a result of the acquisition the purchaser would hold greater than a 45% interest in the company, unless there is another shareholder holding more than a 45% interest in the company. These requirements do not apply if (i) in general, the acquisition was made in a private placement that received shareholder approval, (ii) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, if there is not already a 25% or greater shareholder of the company, or (iii) was from a shareholder holding a 45% interest in the company which resulted in the acquirer becoming a holder of a 45% interest in the company if there is not already a 45% or greater shareholder of the company.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a public company's outstanding shares or a class of shares, the acquisition must be made by means of a full tender offer for all of the outstanding shares or a class of shares. In such event, if less than 5% of the outstanding shares are not tendered in such full tender offer, all of the outstanding shares or class of shares will be transferred to the acquirer. The Israeli Companies Law provides for appraisal rights if any shareholder files a request in court within three months following the consummation of a full tender offer. If more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire shares in the tender offer that will cause his shareholding to exceed 90% of the outstanding shares.

Exculpation, Indemnification and Insurance of Directors and Officers

Exculpation of Office Holders

The Israeli Companies Law provides that an Israeli company cannot exculpate an office holder from liability with respect to a breach of his or her duty of loyalty. If permitted by its articles of association, a company may exculpate in advance an office holder from his or her liability to the company, in whole or in part, with respect to a breach of his or her duty of care. However, a company may not exculpate in advance a director from his or her liability to the company with respect to a breach of his duty of care in the event of distributions. Our articles of association allow us to exculpate any office holder from his or her liability to us for breach of duty of care, to the maximum extent permitted by law, before or after the occurrence giving rise to such liability.

Insurance of Office Holders

The Israeli Companies Law provides that a company may, if permitted by its articles of association, enter into a contract to insure office holders in respect of liabilities incurred by the office holder with a respect to an act or omission performed in his or her capacity as an office holder, as a result of: (i) a breach of the office holder's duty of care to the company or to another person; (ii) a breach of the office holder's duty of loyalty to the company, provided that the office holder acted in good faith and had reasonable cause to assume that his or her act would not prejudice the company's interests; or (iii) a monetary liability imposed upon the office holder in favor of another person.

Our articles of association provide that, subject to any restrictions imposed by applicable law, we may procure, and/or undertake to procure, insurance covering any past or present or future office holder against any liability which he or she may incur in such capacity, including insurance covering us for indemnifying such office holder, to the maximum extent permitted by law.

Indemnification of Office Holders

The Israeli Companies Law provides that a company may, if permitted by its articles of association, indemnify an office holder for liabilities or expenses imposed on him or her, or incurred by him or her concerning acts or omissions performed by the office holder in such capacity for: (i) a monetary liability imposed on the office holder in favor of another person by any judgment, including a settlement or an arbitrator's award approved by a court; (ii) reasonable litigation expenses, including attorney's fees, incurred by the office holder as a result of an investigation or proceeding instituted against him or her by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against the office holder or the imposition of any monetary liability in lieu of criminal proceedings, or concluded without an indictment against the office holder but with the imposition of a monetary liability on the office holder in lieu of criminal proceedings with respect to a criminal offense that does not require proof of criminal intent; and (iii) reasonable litigation expenses, including attorneys' fees, incurred by the office holder or which were imposed on him or her by a court, in an action instituted by the company or on the company's behalf, or by another person, against the office holder, or in a criminal charge from which the office holder

was acquitted, or in a criminal proceeding in which the office holder was convicted of a criminal offense which does not require proof of criminal intent.

- 40 -

The Israeli Companies Law provides that a company's articles of association may permit the company to indemnify an office holder following a determination to this effect made by the company after the occurrence of the event in respect of which the office holder will be indemnified. It also provides that a company's articles of association may permit the company to undertake in advance to indemnify an office holder, except that with respect to a monetary liability imposed on the office holder by any judgment, settlement or court-approved arbitration award, the undertaking must be limited to types of events which the company's board of directors deems foreseeable considering the company's actual operations at the time of the undertaking, and to an amount or standard that the board of directors has determined as reasonable under the circumstances.

Our articles of association provide that we may undertake to indemnify in advance an office holder, in accordance with the conditions set under applicable law, against any liabilities he or she may incur in such capacity, provided that such undertaking is limited with respect to categories of events that can be expected as determined by our board of directors when authorizing such undertaking, and with respect to such amounts determined by our board of directors as reasonable in the circumstances. Furthermore, under our articles of association, we may indemnify any past or present office holder, in accordance with the conditions set under any law, with respect to any past occurrence, whether or not we are obligated under any agreement to indemnify such office holder in respect of such occurrence.

Limitations on Exculpation, Insurance and Indemnification

The Israeli Companies Law provides that neither a provision of the articles of association permitting the company to enter into a contract to insure the liability of an office holder, nor a provision in the articles of association or a resolution of the board of directors permitting the indemnification of an office holder, nor a provision in the articles of association exempting an office holder from duty to the company shall be valid, where such insurance, indemnification or exemption relates to any of the following: (i) a breach by the office holder of his duty of loyalty, except with respect to insurance coverage or indemnification if the office holder acted in good faith and had reasonable grounds to assume that the act would not prejudice the company; (ii) a breach by the office holder of his duty of care if such breach was committed intentionally or recklessly, unless the breach was committed only negligently; (iii) any act or omission committed with intent to derive an unlawful personal gain; and (iv) any fine or forfeiture imposed on the office holder.

Under the Israeli Companies Law, exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, an office holder must be approved by the company's audit committee and board of directors and, if such office holder is a director, also by the company's shareholders.

We have agreed to indemnify our office holders to the fullest extent permitted by law. The aggregate amount we may pay our office holders pursuant to our indemnification undertaking may not exceed, jointly and in the aggregate, \$2 million and in any event not more than twenty five percent of our company's net equity. We currently maintain directors and officers liability insurance with a per claim and aggregate coverage limit of \$10 million. Under our current directors and officers liability insurance policy, losses will be paid in accordance with the following order of priority: first, on behalf of officers and directors, for all loss that they will be obligated to pay as a result of a claim made against them; thereafter, on our behalf, for all loss that an officer or director will be obligated to pay as a result of a claim made against them, to the extent that we are required or permitted by law to indemnify our officers and directors; and thereafter, on our behalf, for all loss that we will be obligated to pay as a result of a securities claim made against us.

D. Employees

As of December 31, 2009, we employed 317 full-time employees in Israel, of which 212 were employed in manufacturing services, 38 in process and product engineering, 37 in quality assurance and control, 13 in sales and

marketing and 17 in finance, accounting, information service and administration.

As of December 31, 2008, we employed 316 full-time employees in Israel, of which 202 were employed in manufacturing services, 41 in process and product engineering, 38 in quality assurance and control, 13 in sales and marketing and 22 in finance, accounting, information service and administration.

As of December 31, 2007, we employed 326 full-time employees in Israel, of which 206 were employed in manufacturing services, 38 in process and product engineering, 43 in quality assurance and control, 14 in sales and marketing and 25 in finance, accounting, information service and administration.

In addition, Kubatronik, our subsidiary in Germany, employed 37 full-time employees and 7 part-time employees as of December 31, 2009, compared to 40 full-time employees and 7 part-time employees as of December 31, 2008 and 38 full-time employees and 8 part-time employees as of December 31, 2007.

Eltek USA, a wholly-owned subsidiary incorporated in Delaware in July 2007, employed 4 full-time employees as of December 31, 2009 and 3 full-time employees as of December 31, 2008. Eltek USA did not have any employees as of December 31, 2007.

Our relationships with our employees in Israel are governed by Israeli labor legislation and regulations, extension orders of the Israeli Ministry of Labor and personal employment agreements. We are subject to various Israeli labor laws, general collective bargaining agreements entered into, from time to time, between the Histadrut (General Federation of Labor in Israel) and the Manufacturers Association, as well as specific and local agreements and arrangements. Such laws, agreements, and arrangements cover the wages and employment conditions of our employees, including length of the workday, minimum daily wages for professional workers, contribution to pension fund, insurance for work related accidents, procedures for dismissing employees, determination of severance pay, benefit programs and annual leave. We generally provide our Israeli employees with benefits and working conditions beyond the minimums required by law.

In addition, certain of our officers, key employees and other employees are party to individual employment agreements. We have entered into a non-disclosure and non-competition agreement with some of our executive officers. All of our officers and employees are subject to confidential and proprietary information provisions set forth in our Code of Business Conduct and Ethics.

Pursuant to Israeli law, we are legally required to pay severance benefits upon certain circumstances, including the retirement or death of an employee or the termination of employment of an employee without due cause. Most of our employees are covered by pension plans providing customary benefits including retirement and severance benefits. Some of our employees are covered by life and pension insurance policies providing similar benefits. We contribute between 12.0% and 14.5% of base salaries to such plans and employees contribute between 5.0% to 7.0% of base salaries. We also contribute 7.5% of base salaries to certain "professional advancement" funds for managers, engineers and others and such employees contribute 2.5% of base salaries. Our contribution and employee contributions are not limited; however, a company's contribution above certain specified maximum amounts are taxable income to the employee. Israeli employers and employees are required to pay predetermined sums to the National Insurance Institute, which is similar to the United States Social Security Administration. Subject to minimum thresholds, the employer contribution to the National Insurance Institute is at the rate of 4.43% of the salary and the employee contribution to the National Insurance Institute is at the rate of 12.0% of the salary (of which 5% relates to payments for national health insurance), both of which are limited to a maximum salary of NIS 76,830 (approximately \$19,600 based on the average NIS/U.S. dollar exchange rate for 2009). In the year ended December 31, 2009, our aggregate payments as an employer to the National Insurance Institute amounted to approximately 4.0% of the salaries.

E. Share Ownership

Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information as of May 10, 2010 regarding the beneficial ownership by each of our directors and executive officers:

| Name | Number of Ordinary Shares Beneficially Owned (1) | Percentage of Ownership (2) | |
|--------------------------|---|--------------------------------------|---|
| Nissim Gilam | - | - | |
| Arieh Reichart | 85,515 | 1.3 | % |
| Amnon Shemer | - | - | |
| Dan Eshed | - | - | |
| Eli Dvora | - | - | |
| Shay Shahar | - | - | |
| Roberto Tulman | - | - | |
| Shlomo Danino | - | - | |
| Vardit Dekel | - | - | |
| Avi Gal | - | - | |
| Eva Zilberleib | - | - | |
| James Barry | - | - | |
| David Banitt | - | - | |
| Eytan Barak | - | - | |
| Josef Maiman | 1,589,440(3) | 24.1 | % |
| Eitan Popper | - | - | |
| Ophira Rosolio-Aharonson | - | - | |
| Joseph Yerushalmi | - | - | |

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Ordinary shares relating to options or convertible notes currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.

(2) The percentages shown are based on 6,610,107 ordinary shares issued and outstanding as of May 10, 2010.

(3) Based upon a Schedule 13D/A filed with the Securities and Exchange Commission on May 29, 2007 and other information available to the company. Includes 989,696 ordinary shares held of record by Merhav M.N.F. Ltd., an Israeli private company controlled by Mr. Maiman and 599,744 ordinary shares held of record by Integral International Inc., a Panama corporation controlled by Mr. Maiman. Mr. Maiman may be deemed to be the beneficial owner of the aggregate 1,589,440 ordinary shares held directly by Merhav M.N.F. Ltd. and Integral International Inc.

Stock Option Plans

Our 2000 Stock Option Plan, or the 2000 Plan, authorizes the grant of options to purchase up to 750,000 ordinary shares. Employees, officers, directors and consultants of our company and its subsidiaries are eligible to participate in the 2000 Plan. Awards under the 2000 Plan may be granted in the forms of incentive stock options as provided in Section 422 of the U.S. Internal Revenue Code of 1986, as amended, non-qualified stock options, options granted pursuant to Section 102 of the Israeli Income Tax Ordinance (New Version), 1961, or the Israeli Tax Ordinance, and options granted pursuant to Section 3(9) of the Israeli Tax Ordinance. The 2000 Plan has a term of ten years and will terminate on July 31, 2010. No award of options may be made after such date.

The compensation committee administers the 2000 Plan. Subject to the provisions of the 2000 Plan and applicable law, the compensation committee has the authority, in its sole discretion, to:

- propose to grant awards under the 2000 Plan and recommend to the board of directors the persons to whom such awards be granted;
- determine the form, terms and conditions of the written stock option agreement evidencing the option, including the type of option and the number of shares to which it pertains, the option price, the option period and its vesting schedule, and exercisability of the option in special cases (such as death, retirement, disability and change of control);
 - prescribe the form and provisions of the notice of exercise and payment of the option;
 - nominate a trustee for options issued under Section 102 of the Israeli Tax Ordinance;

- adjust any or all of the number and type of shares that thereafter may be made the subject of options, the number and type of shares subject to outstanding options, and the grant or exercise price with respect to any option, or, if deemed appropriate, make provision for a cash payment to the holder of any outstanding option in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the 2000 Plan in the event of any dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares or other securities;
- interpret the provisions of the 2000 Plan; and
- prescribe, amend, and rescind rules and regulations relating to the 2000 Plan or any award thereunder as it may deem necessary or advisable.

Neither the board of directors nor the compensation committee may, without the consent of the optionee, alter or in any way impair the rights of an optionee under any award previously granted. Neither the termination of the 2000 Plan nor the change of control of our company (except to the extent provided in the 2000 Plan) will affect any option previously granted.

The option price per share may not be less than 100% of the fair market value of such share on the date of the grant. However, in the case of an award of an incentive stock option made to a 10% owner, the option price per share may not be less than 110% of the fair market value (as such term is defined in the 2000 Plan) of such share on the date of the award. Generally the options vest ratably over a three-year period. An option may not be exercisable after the expiration of five years from the date of its award. No option may be exercised after the expiration of its term.

Options are not assignable or transferable by the optionee, other than by will or the laws of descent and distribution, and may be exercised during the lifetime of the optionee only by the optionee or his or her guardian or legal representative. However, during the optionee's lifetime, the optionee may, with the consent of the compensation committee, transfer without consideration all or any portion of his options to members of the optionee's immediate family (as defined in the 2000 Plan), a trust established for the exclusive benefit of members of the optionee's immediate family, or a limited liability company in which all members are members of the optionee's immediate family.

Since December 2004, we have not granted options under the 2000 Plan. Prior to such decision, options for the purchase of an aggregate 538,200 ordinary shares had been granted under the 2000 Plan. As of December 31, 2009, options to purchase 132,600 ordinary shares have been exercised, options to purchase 405,600 ordinary shares have been forfeited and no options were outstanding under the 2000 Plan. Of the exercised options, options to purchase 132,300 ordinary shares were exercised at \$4.375 per share and options to purchase 300 ordinary shares were exercised at \$1.14 per share. Of the options granted under the 2000 Plan (excluding options that expired without being exercised), options to purchase an aggregate 49,800 ordinary shares were granted to our executive officers and the chairman of our board of directors.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information as of May 10, 2010 regarding the beneficial ownership by all shareholders known to us to own beneficially 5% or more of our ordinary shares:

| Name | Number of Ordinary Shares | Percentage |
|------|------------------------------|------------|
|------|------------------------------|------------|

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| | Beneficially Owned (1) | | of Ownership (2) | |
|-----------------------------|---------------------------|-----|------------------------|---|
| Josef Maiman | 1,589,440 | (3) | 24.1 | % |
| Merhav M.N.F. Ltd. | 989,696 | (4) | 15.0 | % |
| Integral International Inc. | 599,744 | (5) | 9.1 | % |

- 44 -

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- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Ordinary shares relating to options or convertible notes currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 6,610,107 ordinary shares issued and outstanding as of May 10, 2010.
- (3) Based upon a Schedule 13D/A filed with the Securities and Exchange Commission on May 29, 2007 and other information available to the company. Includes 989,696 ordinary shares held of record by Merhav M.N.F. Ltd., an Israeli private company controlled by Mr. Maiman and 599,744 ordinary shares held of record by Integral International Inc., a Panama corporation controlled by Mr. Maiman. Mr. Maiman may be deemed to be the beneficial owner of the aggregate 1,589,440 ordinary shares held directly by Merhav M.N.F. Ltd. and Integral International Inc.
- (4) Merhav M.N.F. Ltd. is an Israeli private company controlled by Mr. Maiman. Accordingly, Mr. Maiman may be deemed to be the beneficial owner of the ordinary shares held directly by Merhav M.N.F. Ltd.
- (5) Integral International Inc. is a Panama corporation controlled by Mr. Maiman. Accordingly, Mr. Maiman may be deemed to be the beneficial owner of the ordinary shares held directly by Integral International Inc.

Significant Changes in the Ownership of Major Shareholders

As of December 31, 2006, Mr. Josef Maiman beneficially owned 599,744 ordinary shares, which were held of record by Integral International Inc., or Integral, representing approximately 10.7% of our outstanding shares at such times (excluding ordinary shares that were issuable upon exercise of a convertible note then held by Merhav M.N.F. Ltd., or Merhav). In May 2007, Mr. Josef Maiman elected to convert a convertible note held of record by Merhav for an aggregate 985,796 ordinary shares. As a result, Mr. Maiman's beneficial ownership interest increased to 1,585,540 ordinary shares, representing approximately 24.0% of our then outstanding shares, of which 985,796 ordinary shares were held of record by Merhav and 599,744 ordinary shares were held of record by Integral. In June and July 2008 Merhav acquired an additional 3,000 ordinary shares and 900 ordinary shares, respectively, increasing Mr. Maiman's beneficial ownership to an aggregate 1,589,440 ordinary shares, of which 989,696 ordinary shares are held of record by Merhav and 599,744 ordinary shares are held of record by Integral. Mr. Maiman's beneficial ownership of our ordinary shares did not change in 2009.

Major Shareholders Voting Rights

Our principal shareholders do not have different voting rights attached to their ordinary shares.

Record Holders

Based on the information provided to us by our transfer agent, as of May 11, 2010, there were 20 holders of record of our ordinary shares, of which 12 record holders holding approximately 74.99% of our ordinary shares had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside, since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 74.68% of our outstanding ordinary shares as of such date).

B. Related Party Transactions

In 2003, we negotiated a new financing plan with our banks and controlling shareholder. As part of this financing plan, we issued a convertible note in the principal amount of \$500,000 to Merhav M.N.F. Ltd., or Merhav, an Israeli private company controlled by our controlling shareholder, Mr. Josef A. Maiman. In January 2004, pursuant to the terms of the note, Merhav converted \$200,000 of the amounts due and payable under the note into 606,060 ordinary shares of our company, and we issued a replacement convertible note to Merhav for the amount that remained outstanding under the original note at such date, in the principal amount of \$325,312.5. The note became due on May 15, 2007. The note bore interest at the rate of 10% per year, compounded on a quarterly basis. Under the terms of the note, Merhav had the right, at any time, to convert the note into ordinary shares of our company at a price of \$0.33 per ordinary share. We had the right, at our sole discretion, to repay the accrued interest or convert the accrued interest into ordinary shares at the foregoing price. On May 15, 2007, Mr. Maiman elected to convert the entire note into 985,796 ordinary shares. Upon the conversion of the note, we elected to repay the accrued interest on the principal amount of the convertible note to Merhav in the amount of \$128,000. We recorded interest and exchange rate income of \$10,166 on the convertible note during 2007.

During the period from December 2007 through August 2008, our principal shareholder Mr. Maiman (though entities under his control) acquired Gadot Chemical Tankers and Terminals Ltd., or Gadot, one of our major raw material suppliers. Our transactions with Gadot are carried out on an arm's-length basis. For the years ended December 31, 2009, 2008 and 2007, we purchased from Gadot raw materials in the aggregate amount of \$1.8 million, \$1.6 million and \$1.9 million, respectively. As of December 31, 2009, 2008 and 2007, our accounts payable to Gadot amounted to \$713,000, \$561,000 and \$685,000, respectively.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See the consolidated financial statements, including the notes thereto, and the exhibits listed in Item 18 hereof and incorporated herein by this reference.

Legal Proceedings

On March 15, 2009, we received a notice from the Public Council for the Prevention of Noise and Pollution in Israel, or the Public Council regarding several alleged environmental damages caused by us with respect to industrial waste water. The Public Council is a public organization established to promote issues concerning quality of life and the environment and is legally authorized to act to preserve the public interest, including the right to file lawsuits to such extent. Following extensive correspondence with the Public Council, we requested to meet with their representative in order to demonstrate our plans for compliance with the regulatory requirements. On March 22, 2010, the legal counsel of the Public Council advised us that due to repeatedly exceeding the permitted level of pollutants in our wastewater, the Public Council has decided to file a law suit and private criminal charges against us, and will consider filing a preliminary injunction to cause us to immediately refrain from discharging wastewater. On March 25, 2010, our legal counsel responded in writing explaining that we had invested significant amounts and efforts in programs to reduce the concentrations of pollutants in the wastewater, reiterating our request for a meeting to present such programs and asking the Public Council to withdraw its notice that they had decided to file such claims. On May 4, 2010 we received a notice from the Rishon Le-Zion Magistrate's Court that the Public Council has filed a lawsuit

against us and certain of our directors regarding several alleged environmental damages caused by us with respect to our release of industrial waste water. We have 30 days to file a statement of defense. In its claim, the Public Council is seeking to compel us: (i) to disconnect from the municipal sewer system and to refrain from discharging contaminated wastewater into the sewer system; (ii) until the requested repairs are completed, to dispose of the wastewater that is allegedly being disposed of in a manner that does not comply with legal standards to a permitted site and to allow the Public Council's representatives to inspect such disposal; (iii) to refrain from discharging wastewater into the municipal sewer system until receipt of the Public Council's approval or an approval from the Israeli Ministry of Environment that we have conducted the required repairs in order to conform the quality of the wastewater to legal requirements; (iv) to enable the Public Council's representatives to visit our plant and to inspect the quality of the wastewater that is discharged into the municipal sewer system; (v) to pay all legal expenses and to be responsible for the Public Council's legal counsel's fee. Alternatively the Public Council requested the Court to provide any legal remedy it deems appropriate under the circumstances and in its discretion. At this preliminary stage it is impossible for us to estimate the lawsuit's outcome or impact on our financial results.

On August 25, 2009, we received a notice from the Petach Tikva Municipality claiming that random automatic wastewater sampling in proximity of our plant indicates high levels of metal concentrations which exceed the amounts permitted by law. The Municipality requested our explanations to such alleged violation and further informed us that its environmental department has determined that it shall initiate procedures against any plant that is not in compliance with the permitted concentrations. On September 16, 2009, we sent a letter to the Municipality explaining that we have been investing extensive funds and resources each year in order to comply with all environmental legal requirements. We further indicated that we have been and are still engaged in several projects to reduce salt and metal concentrations in our plant wastewater and that we constantly update our procedures with respect to environmental matters. In addition, we have proposed to collaborate with the Municipality and conduct mutual tests to ensure maximum protection of the environment. To date, we have not received any response from the Municipality to our letter dated September 16, 2009.

If we are found to be in violation of environmental laws, we could be liable for damages and costs of remedial actions and could also be subject to revocation of permits necessary to conduct our business or any part thereof. Any such revocation could require us to cease production, which would have a material adverse effect on our financial condition and results of operations. At this preliminary stage it is impossible for us to estimate the lawsuit's outcome or impact on our financial results.

Other than the above, we are not involved in any legal proceedings nor are we subject to any threatened litigation that are material to our business or financial condition.

Dividend Distributions Policy

We have never declared or paid any cash dividends to our shareholders. We currently intend to retain future earnings for use in our business and do not anticipate paying cash dividends on our ordinary shares in the foreseeable future. Any future dividend policy will be determined by our board of directors and will be based upon conditions then existing, including our results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions.

According to the Israeli Companies Law, a company may distribute dividends out of its profits provided that there is no reasonable concern that such dividend distribution will prevent the company from paying all its current and foreseeable obligations, as they become due. Notwithstanding the foregoing, dividends may be paid with the approval of a court, provided that there is no reasonable concern that such dividend distribution will prevent the company from satisfying its current and foreseeable obligations, as they become due. Profits, for purposes of the Israeli Companies Law, means the greater of retained earnings or earnings accumulated during the preceding two years, after deducting previous distributions that were not deducted from the surpluses. In the event cash dividends are declared, such dividends will be paid in NIS.

B. Significant Changes

None.

ITEM 9.

THE OFFER AND LISTING

A. Offer and Listing Details

Annual Stock Information

The following table sets forth, for each of the years indicated, the range of high ask and low bid prices of our ordinary shares on the NASDAQ Capital Market:

- 47 -

| Year | High | Low |
|------|---------|---------|
| 2005 | \$ 6.40 | \$ 1.21 |
| 2006 | \$ 5.35 | \$ 2.87 |
| 2007 | \$ 4.92 | \$ 2.35 |
| 2008 | \$ 3.10 | \$ 0.50 |
| 2009 | \$ 1.70 | \$ 0.66 |

Quarterly Stock Information

The following table sets forth, for each of the full financial quarters in the two most recent full financial years and any subsequent period, the range of high ask and low bid prices of our ordinary shares on the NASDAQ Capital Market:

| | High | Low |
|----------------|---------|---------|
| 2008 | | |
| First Quarter | \$ 3.10 | \$ 1.51 |
| Second Quarter | \$ 2.34 | \$ 0.86 |
| Third Quarter | \$ 1.49 | \$ 0.80 |
| Fourth Quarter | \$ 1.28 | \$ 0.50 |
| 2009 | | |
| First Quarter | \$ 1.10 | \$ 0.66 |
| Second Quarter | \$ 1.56 | \$ 0.76 |
| Third Quarter | \$ 1.70 | \$ 1.05 |
| Fourth Quarter | \$ 1.28 | \$ 0.91 |
| 2010 | | |
| First Quarter | \$ 1.66 | \$ 1.05 |

Monthly Stock Information

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

| Month | High | Low |
|---------------|---------|---------|
| November 2009 | \$ 1.21 | \$ 1.01 |
| December 2009 | \$ 1.15 | \$ 0.91 |
| January 2010 | \$ 1.25 | \$ 1.06 |
| February 2010 | \$ 1.22 | \$ 1.05 |
| March 2010 | \$ 1.66 | \$ 1.12 |
| April 2010 | \$ 1.37 | \$ 1.22 |

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares were listed on the NASDAQ National Market from our initial public offering on January 22, 1997 until May 19, 1999, at which date the listing of our ordinary shares was transferred to the NASDAQ Capital Market (symbol: ELTK).

D. Selling Shareholders

Not applicable.

- 48 -

E. Dilution

Not applicable.

F. Expense of the Issue

Not applicable.

ITEM 10.

ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Set out below is a description of certain provisions of our memorandum of association and articles of association and of the Israeli Companies Law related to such provisions. This description is only a summary and does not purport to be complete and is qualified by reference to the full text of the memorandum of association and articles of association, which are incorporated by reference as exhibits to this Annual Report, and to Israeli law.

Purposes and Objects of the Company

We are registered with the Israeli Registrar of Companies and have been assigned company number 52-004295-3. Section 2 of our memorandum of association provides that we were established for the purpose of engaging in the business of developing, manufacturing, producing, vending, importing, exporting, supplying, distributing and dealing in printed, multi-layer, flexible, thick film, hybrid and integrated circuits, components or portions thereof, processes for making the same and related products. In addition, the purpose of our company is to perform various corporate activities permissible under Israeli law.

The Powers of the Directors

Under the provisions of the Israeli Companies Law and our articles of association, a director cannot vote on a proposal, arrangement or contract in which he or she is materially interested, nor attend a meeting during which such transaction is considered. In addition, our directors cannot vote compensation to themselves or any members of their body without the approval of our audit committee and our shareholders at a general meeting. The requirements for approval of certain transactions are set forth above in Item 6C. "Directors, Senior Management and Employees – Board Practices – Approval of Related Party Transactions Under Israeli Law."

The authority of our directors to enter into borrowing arrangements on our behalf is not limited, except in the same manner as any other transaction by us.

Under our articles of association, the service of directors in office is not subject to any age limitation and our directors are not required to own shares in our company in order to qualify to serve as directors.

Rights Attached to Shares

Our authorized share capital consists of NIS 30,000,000 divided into 50,000,000 ordinary shares of a nominal value of NIS 0.6 each. All outstanding ordinary shares are validly issued, fully paid and non-assessable. The rights attached to

the ordinary shares are as follows:

Dividend rights. Holders of our ordinary shares are entitled to the full amount of any cash or share dividend subsequently declared. The board of directors may declare interim dividends and propose the final dividend with respect to any fiscal year only out of its profits, as defined under the Israeli Companies Law. See Item 8A. “Financial Information – Consolidated and Other Financial Information – Dividend Distributions Policy.” If after 30 days a dividend has been declared and it is still unclaimed, the dividend may be invested or otherwise used by us for our own account, as we deem fit, until such dividend is claimed; and we will not be deemed a trustee in respect thereof. We are not obliged to pay, and may not pay interest on declared but unpaid dividends if the shareholders entitled to such dividends fails to collect the same or to provide us the necessary information for the payment thereof, or if we are for any other reason unable to pay the dividend to such shareholder.

Voting rights. Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Unless otherwise required by law, all resolutions require approval of no less than a majority of the voting rights represented at the meeting in person or by proxy and voting thereon.

Pursuant to our articles of association, our board of directors is divided into three classes (other than outside directors). Generally, at each annual meeting of shareholders one of such classes of directors is elected for a term of three years by a vote of the holders of a majority of the voting power represented and voting at such meeting. All the members of our board of directors (except our outside directors) may be reelected upon completion of their term of office. For information regarding the election of our outside directors, see Item 6C. "Directors, Senior Management and Employees – Board Practices – Election of Directors."

Rights to share in our profits. Our shareholders have the right to share in our profits distributed as a dividend and any other permitted distribution. See this Item 10B. "Additional Information – Memorandum and articles of association – Rights Attached to Shares – Dividend Rights."

Rights to share in surplus in the event of liquidation. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to the nominal value of their holdings. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Limitations on any existing or prospective major shareholder. See Item 6C. "Directors and Senior Management – Board Practices - Approval of Related Party Transactions Under Israeli Law."

Changing Rights Attached to Shares

According to our articles of association, in order to change the rights attached to any class of shares, such change must be adopted by a resolution in writing by the holders of the majority of the issued shares of such class or by an ordinary resolution at a separate general meeting of the holders of the affected class.

Annual and Extraordinary Meetings of Shareholders

The board of directors must convene an annual general meeting of shareholders at least once every calendar year, within 15 months of the last annual meeting. Depending on the matter to be voted upon, notice of at least 21 days or 35 days prior to the date of the meeting is required. In addition, the board of directors must convene a special general meeting of shareholders upon the demand of two of the directors, 25% of the nominated directors, one or more shareholders having at least 5% of the outstanding share capital and at least 1% of the voting power in the company, or one or more shareholders having at least 5% of the voting power in the company. See this Item 10B. "Additional Information - Memorandum and articles of association- Rights Attached to Shares-Voting Rights."

The quorum required for a shareholder meeting consists of at least two shareholders present in person or represented by proxy who hold or represent, in the aggregate, at least 40% of the voting rights of the issued share capital. A meeting adjourned for lack of a quorum is adjourned by three business days, at the same time and place, or any time and place as the board of directors unanimously designate in a notice to the shareholders. The requisite quorum at an adjourned general meeting will be: (i) if the original meeting was convened upon requisition by shareholders pursuant to the Israeli Companies Law - the number of shareholders holding the minimum number of voting shares necessary to make such requisition, present in person or by proxy; and (ii) in any other case - one or more shareholders, present

in person or by proxy, holding at least one share. We do not follow the requirements of the NASDAQ Marketplace Rules regarding the quorum at shareholder meetings. See Item 16G. "Corporate Governance."

- 50 -

Limitations on the Rights to Own Securities in Our Company

Neither our memorandum of association nor our articles of association nor the laws of the State of Israel restrict in any way the ownership or voting of shares by non-residents, except with respect to subjects of countries that are in a state of war with Israel.

Provisions Restricting Change in Control of Our Company

Tender Offer. A person wishing to acquire shares, or any class of shares, of a publicly traded Israeli company and who would as a result hold over 90% of the company's issued and outstanding share capital, or a class of shares, is required by the Israeli Companies Law to make a full tender offer to all of the company's shareholders for the purchase of all of the remaining issued and outstanding shares of the company, or the class of shares, as the case may be. If the shareholders who do not respond to the offer hold less than 5% of the issued share capital of the company, or of the relevant class of shares, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, the shareholders may petition the court to determine the consideration for the acquisition if the consideration is less than the shares' fair value. If the dissenting shareholders hold more than 5% of the issued and outstanding share capital of the company, or of the relevant class of shares, as the case may be, the acquirer may not acquire additional shares of the company from shareholders who accepted the tender offer if following such acquisition the acquirer would own over 90% of the company's issued and outstanding share capital, or of the relevant class of shares.

The Israeli Companies Law provides that an acquisition of shares of a public company be made by means of a tender offer if as a result of the acquisition the purchaser would become the holder of a "control block." Under the Israeli Companies Law shares conferring 25% or more of the voting rights in the company constitute a "control block." The requirement for a tender offer does not apply if there is already another holder of a "control block". Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the acquirer would hold more than 45% of the voting rights in the company, unless there is another person holding more than 45% of the voting rights in the company. These requirements do not apply if:

- the acquisition was made in a private placement the object of which was to confer to the acquirer a "control block" where there is no holder of a "control block", or to confer to the acquirer more than 45% of the voting rights in the company where there is no holder of more than 45% of the voting rights in the company, and the private placement received the general meeting's approval; or
- the acquisition was from the holder of a "control block" and resulted in the acquirer becoming the holder of a "control block"; or
- the acquisition was from a shareholder holding more than 45% of the voting rights in the company and resulted in the acquirer becoming a holder of more than 45% of the voting rights in the company.

Merger. The Israeli Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Israeli Companies Law are met, the majority of each party's shares voted on the proposed merger at a shareholders meeting convened with prior notice of at least 35 days. A merger is defined as the transfer of all assets and liabilities, including conditional, future, known and unknown debts of the target company to the surviving company, as a result of which the target company is liquidated, and stricken out of the Companies Register.

Under the Israeli Companies Law and our articles of association, if the approval of a general meeting of the shareholders is required, merger transactions may be approved by holders of a simple majority of the shares present and voting, in person or by proxy or by written ballot, at the general meeting convened to approve the transaction. If one of the merging companies, or a shareholder that holds 25% or more of the means of control of one of the merging companies, or a substantial shareholder, holds shares of the other merging company, then a dissenting vote of holders of the majority of the shares of the other merging company present and voting, excluding shares held by the merging company or a substantial shareholder thereof, or by anyone acting on behalf of either of them, their relatives and corporations controlled thereby, is sufficient to reject the merger transaction. Means of control are defined as any of the following: (i) the right to vote at a general meeting of a company and (ii) the right to appoint a director of a company. If the transaction would have been approved but for the exclusion of the votes as previously indicated, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of the company. The court will not approve a merger unless it is convinced that the merger is fair and reasonable, taking into account the values of the merging companies and the consideration offered to the shareholders. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the merged company. In addition, a merger may not be completed unless at least 50 days have passed from the date that a proposal for approval of the merger was filed with the Israeli Registrar of Companies and 30 days from the date that shareholder approval of both merging companies was obtained.

Notwithstanding the foregoing, a merger is not subject to the approval of the shareholders of the target company if the target company is a wholly-owned subsidiary of the acquiring company. A merger is not subject to the approval of the shareholders of the acquiring company if:

- the merger does not require the alteration of the memorandum or articles of association of the acquiring company;
- the acquiring company would not issue more than 20% of the voting rights thereof to the shareholders of the target company in the course of the merger and no person will become, as a result of the merger, a controlling shareholder of the acquiring company, on a fully diluted basis;
- neither the target company, nor any shareholder that holds 25% of the means of control of the target company is a shareholder of the acquiring company; and
 - there is no person that holds 25% or more of the means of control in both companies.

Disclosure of Shareholders Ownership

The Israeli Securities Law and regulations promulgated thereunder do not require a company whose shares are publicly traded solely on a stock exchange outside of Israel, as in the case of our company, to disclose its share ownership in the records of the Israeli Companies Registrar.

Changes in Our Capital

Changes in our capital are subject to the approval of a simple majority of shareholders present and voting at any shareholders meeting

C. Material Contracts

On May 29, 2007, we entered into a lease agreement with respect to our executive offices, as well as our design, production, storage and shipping facilities, aggregating approximately 90,000 square feet, which are located in an

industrial building in the Sgoola Industrial Zone of Petach Tikva, Israel. The lease for such facilities expires in February 2017 and we have an option to extend the lease for an additional five-year term upon six months' prior notice. In the years ended December 31, 2009 and 2008, we recorded \$755,000 and \$796,000, respectively, of rent expenses for these premises. During 2009, the lessor sold all its rights, title and interest in the premises to a new owner pursuant to receivership proceedings and the lease for the facilities was assigned to such new owner.

Kubatronik leases its executive offices as well as its design, production, storage and shipping facilities, aggregating approximately 15,000 square feet, under a lease agreement signed in June 2002, as extended in December 2007. The lease for the facilities expires on June 30, 2013. In the years ended December 31, 2009 and 2008, Kubatronik paid an aggregate of approximately Euro 72,000 (\$101,000) and Euro 76,000, respectively, in rent for these premises.

D. Exchange Controls

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares.

Non-residents of Israel who purchase our ordinary shares will be able to convert dividends, if any, thereon, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, into freely repatriable dollars, at the exchange rate prevailing at the time of conversion, provided that the Israeli income tax has been withheld (or paid) with respect to such amounts or an exemption has been obtained.

E. Taxation

The following is a discussion of Israeli and United States tax consequences material to our shareholders. To the extent that the discussion is based on tax legislation which has not been subject to judicial or administrative interpretation, the views expressed in the discussion might not be accepted by the tax authorities in question or by court. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.

Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any foreign, state or local taxes.

Israeli Tax Considerations

General Corporate Tax Structure

Israeli companies are subject to “corporate tax” on their worldwide income. The applicable rate for 2009 was 26%. The rate was reduced to 25% in 2010, and will be further reduced to 24% in 2011, 23% in 2012, 22% in 2013, 21% in 2014, 20% in 2015 and 18% in 2016 and thereafter. However, the effective rate of tax payable by a company which is qualified under Israeli law as an “Industrial Company” and/or which derives income from an “approved enterprise” or a “benefited enterprise” (as further discussed below) may be lower. See Item 10E. “Additional Information – Taxation - Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959.”

Tax Benefits Under the Law for the Encouragement of Industry (Taxes) 1969

Pursuant to the Law for the Encouragement of Industry (Taxes), 1969, or the Industry Law, a company qualifies as an “Industrial Company” if it resides in Israel and at least 90% of its income in any tax year, determined in Israeli currency (exclusive of income from defense loans, capital gains, interest and dividends) is derived from an “Industrial Enterprise” it owns. An “Industrial Enterprise” is defined for purposes of the Industry Law as an enterprise whose majority activity in a given tax year is industrial production.

We believe that we are currently an Industrial Company. An Industrial Company is entitled to certain tax benefits, including a deduction of the purchase price of patents or certain other intangible property rights at the rate of 12.5% per annum.

The tax laws and regulations dealing with the adjustment of taxable income for local inflation provide that Industrial Enterprises, such as us, are eligible for special rates of depreciation deductions. These rates vary in the case of plant and machinery according to the number of shifts in which the equipment is being operated and generally range from

20% to 40% on a straight-line basis, a 30% to 50% on a declining balance basis for equipment first put into operation on or after June 1, 1989 (instead of the regular rates which are applied on a straight-line basis).

Moreover, Industrial Enterprises that are approved enterprises or benefited enterprises (see below) can choose between (a) the special depreciation rates referred to above or (b) accelerated regular rates of depreciation applied on a straight-line basis in respect of property and equipment, generally ranging from 200% (for equipment) to 400% (for buildings) of the ordinary depreciation rates during the first five years of service of these assets, provided that the depreciation on a building may not exceed 20% per annum.

Eligibility for benefits under the Industry Law is not contingent upon the approval of any Government agency. There can be no assurance that we will continue to so qualify, or will be able to avail ourselves of any benefits under the Industry Law in the future.

Tax Benefits Under The Law for the Encouragement of Capital Investments, 1959

General

One of our production facilities qualifies as a “benefited enterprise” under the Law for the Encouragement of Capital Investments, 1959, as amended, or the Investment Law, which provides certain tax benefits to investment programs of an “approved enterprise” or “benefited enterprise.” Our benefited enterprise was converted from a previously approved enterprise program pursuant to the approval of the Israel Tax Authority that we 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 our production facilities were granted approved enterprise status pursuant to the Investment Law; however, the benefit periods for such approved enterprises expired in 2005.

The Investment Law stipulates criteria for investment programs qualified to receive tax benefits, which, if qualified, are referred to as a “benefited enterprise.” Companies that meet those criteria may claim the tax benefits (as further discussed below) offered by the Investment Law directly in its tax returns (and there is no need to obtain prior approval to qualify for the benefits). There is no requirement to file reports with the Investment Center. Audits are the responsibility of the Israeli Income Tax Authorities as part of their tax audits. Companies may also approach the Israeli Tax Authority for a pre-ruling regarding their eligibility for benefits under the Investment Law.

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.

Upon the establishment of an enterprise, an investment of at least NIS 300,000 in production machinery and equipment within three years is required in order for the investment to qualify for the alternative benefits track. For an expansion of an enterprise under the alternative benefits track, a company is required to invest within three years in production machinery and equipment the greater of NIS 300,000 or a certain percentage of its existing production machinery and equipment.

On September 20, 2006, we received a pre-ruling from the Israeli Tax Authority confirming that our 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 our 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 our 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.

- 54 -

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.

Tax Benefits

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. Our 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%.

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 Investment Law and its regulations and the terms of the pre-ruling that we received from the Israeli Tax Authority. If we fail to comply with these conditions, the tax and other benefits may be discontinued, in whole or in part, and we might be required to pay the monetary equivalent of the tax benefits we 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 we currently qualify 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 Investment Law could have a material adverse effect on our future investments in Israel, and could adversely affect our results of operations and financial condition.

Taxation Under Inflationary Conditions

The Income Tax (Inflationary Adjustments) Law, 1985, or the Inflationary Adjustments Law, is intended to neutralize the erosion of capital investments in business and to prevent tax benefits resulting from deduction of inflationary expenses. This law applies a supplementary set of inflationary adjustments to the nominal taxable profits computed under regular historical cost principles.

- 55 -

The Inflationary Adjustments Law introduced a special tax adjustment for the preservation of equity based on changes in the Israeli consumer price index, whereby certain corporate assets are classified broadly into fixed (inflation-resistant) assets and non-fixed assets. Where shareholders' equity, as defined in the Inflationary Adjustments Law, exceeds the depreciated cost of fixed assets (as defined in the Inflationary Adjustment Law), a tax deduction which takes into account the effect of the annual rate of inflation on such excess is allowed (up to a ceiling of 70% of taxable income for companies in any single year, with the unused portion carried forward on a linked basis, without limit). If the depreciated cost of such fixed assets exceeds shareholders' equity, then such excess, multiplied by the annual inflation rate, is added to taxable income. In addition, subject to certain limitations, depreciation of fixed assets and losses carried forward are adjusted for inflation on the basis of changes in the Israeli consumer price index.

Pursuant to the Inflationary Adjustments Law to which we are subject, results for tax purposes are measured in real terms in accordance with the changes in the Israeli consumer price index.

On February 26, 2008, the Israeli Income Tax Law (Inflationary Adjustments) (Amendment No. 20) (Restriction of Period of Application) – 2008 was passed by the Knesset. According to the amendment, the inflationary adjustments law will no longer be 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 the income for the effects of inflation for tax purposes will no longer be calculated. Additionally, depreciation on the protected assets and tax loss carryforwards will no longer be linked to the Consumer Price Index, or the CPI, subsequent to the 2007 tax year, and the balances that have been linked to the CPI through the end of 2007 tax year, will be used going forward. As a result, our carryforward tax loss will no longer be linked to the Israeli CPI.

Taxation of Dividends Paid on our Ordinary Shares

Taxation of Israeli Resident Shareholders

Israeli law imposes a capital gains tax on the sale of capital assets. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain that is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index between the date of purchase and the date of sale. Foreign residents who purchased an asset in foreign currency may request that the inflationary surplus will be computed on the basis of the devaluation of the New Israeli Shekel against such foreign currency. The real gain is the excess of the total capital gain over the inflationary surplus. The inflationary surplus accumulated from and after December 31, 1993, is exempt from any capital gains tax in Israel while the real gain is taxed at the applicable rate discussed below.

Dealers in securities in Israel are taxed at regular tax rates applicable to business income.

Subject to certain transitional provisions relating to capital gains derived from the sale of assets, including our shares, purchased prior to January 1, 2003, the tax rate on capital gains, including capital gain from the sale of securities listed on a stock exchange, is generally a uniform rate of 20% for individuals and 25% for corporate bodies and substantial individual shareholders (who are, generally, shareholders of 10% or more of the shares of the company on the date of the sale of the shares or at any date during the 12 months before the sale). The tax rate on dividends is generally a uniform rate of 20% for individuals and non-resident corporate shareholders and 25% for substantial individual and substantial non-resident corporate shareholders. Dividends paid to an Israeli company by another Israeli company are not subject to tax, unless received out of income derived from a benefited enterprise or stems from income derived or accrued outside of Israel.

Under the convention between the United States and Israel concerning taxes on income, Israeli capital gains tax will generally not apply to the sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the United States within the meaning of the U.S.-Israel tax treaty. However, this exemption will not apply, among other cases, if the gain is attributable to a permanent establishment of such person in Israel, or if the qualified U.S. resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding the sale, exchange or disposition, subject to specified conditions. In this case, the sale, exchange or disposition would be subject to Israeli tax, to the extent applicable. However, under the U.S.-Israel tax treaty, a U.S. resident generally would be permitted to claim a credit for the taxes against the U.S. federal income tax imposed on the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel tax treaty does not relate to U.S. state or local taxes.

For residents of other countries, the purchaser of the shares may be required to withhold capital gains tax on all amounts received for the sale of our ordinary shares, for so long as the capital gain from such a sale is not exempt from Israeli capital gains tax, and unless a different rate is provided in a treaty between Israel and the stockholder's country of residence.

The capital gain from the sale of our shares by non-Israeli residents would be tax exempt as long as our shares are listed on the NASDAQ Capital Market or any other stock exchange recognized by the Israeli Ministry of Finance, and provided certain other conditions are met, the most relevant of which are: (i) the capital gain is not attributed to the foreign resident's permanent establishment in Israel, and (ii) the shares were acquired by the foreign resident after the company's shares had been listed for trading on the foreign Exchange.

If the shares were sold by Israeli residents, then (i) for the period ending December 31, 2002 their sale would be tax exempt so long as (1) the shares were listed on a stock exchange, such as, in our case, the NASDAQ Capital Market, which is recognized by the Israeli Ministry of Finance on December 31, 2002, and (2) we qualified as an Industrial Company or Industrial Holding Company under the law for Encouragement of Industry (Taxes) 1969, at the relevant times as provided by the Income Tax Ordinance [New Version], 1961, which we believe we so qualified and (ii) for the period commencing January 1, 2003, the sale of the shares would be, generally, subject to a 20% tax if sold by non-substantial individual shareholders and 25% tax if sold by a corporate body or a substantial individual shareholders. We cannot provide any assurance that the Israeli tax authorities will agree with the determination that we qualified as an Industrial Company at the relevant times.

On the distribution of dividends other than bonus shares (stock dividends) to individual Israeli residents shareholders or to non-Israeli shareholders, income tax applies at the rate of 20% or 25%, as described above, but is generally withheld at source at the rate of 20% (for as long as we are listed) or the lower rate payable with respect to dividends received out of income derived from a benefited enterprise (see "Law for the Encouragement of Capital Investments, 1959"), unless a double taxation treaty is in effect between Israel and the shareholder's country of residence which provides for a lower tax rate in Israel on dividends. The Convention between the State of Israel and the Government of the United States relating to relief from double taxation provides for a maximum tax of 25% on dividends paid to a resident of the United States. Dividends paid to an Israeli company by another Israeli company are not subject to corporate tax, unless received out of income derived from a benefited enterprise or unless the dividend stems from income produced or accrued abroad.

Taxation of Non-Israeli Resident Shareholders

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares or stock dividends, income tax at the rate of 20% (or 25% as described above), 12.5% for dividends not generated by a benefited enterprise if the non-resident is a U.S. corporation and holds 10% of our voting power for a designated period, and 15% for dividends generated by a benefited enterprise applies, unless a different rate is provided for based on a treaty between Israel and the shareholder's country of residence. Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a Treaty U.S. Resident will be 25%. However, under the Investment Law, dividends generated by an approved enterprise or benefited enterprise are, generally, taxed at the rate of 15%.

Subject to certain conditions, non-Israeli residents will be tax exempt on capital gain derived from investments in Israeli companies without derogating from any other capital gain tax exemption applying to non-Israeli resident under Israeli law or under any applicable double tax treaty.

Foreign Exchange Regulation and Withholding Taxes

Non-residents of Israel who purchase ordinary shares and receive dividends, if any are declared, or any amounts payable upon the dissolution, liquidation or winding up of our affairs will be able to freely repatriate such amounts in non-Israeli currencies, pursuant to the general permit issued by the Controller of Foreign Currency at the Bank of Israel under the Currency Control Law, 1978, provided that we have withheld Israeli income tax with respect to such amounts, as may be applicable.

- 57 -

Under the general permit issued by the Controller of Foreign Currency, Israeli residents, including corporations, may generally purchase securities, including the ordinary shares, outside of Israel.

United States Federal Income Tax Consequences

The following is a summary of certain material U.S. federal income tax consequences that apply to U.S. Holders who hold ordinary shares as capital assets. This summary is based on the United States Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively. This summary does not address all tax considerations that may be relevant with respect to an investment in ordinary shares. This summary does not account for the specific circumstances of any particular investor, such as:

- broker-dealers,
- financial institutions,
- certain insurance companies,
- regulated investment companies or real estate investment trusts,
- investors liable for alternative minimum tax,
- tax-exempt organizations,
- non-resident aliens of the U.S. or taxpayers whose functional currency is not the U.S. dollar,
- persons who hold the ordinary shares through partnerships or other pass-through entities,
- persons who acquire their ordinary shares through the exercise of employee stock options or otherwise as compensation for services,
 - investors who actually or constructively own, or have owned, 10 percent or more of our voting shares, and
- investors holding ordinary shares as part of a straddle or appreciated financial position or a hedging or conversion transaction.

If a partnership or an entity treated as a partnership for U.S. federal income tax purposes owns ordinary shares, the U.S. federal income tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. A partnership that owns ordinary shares and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of holding and disposing of ordinary shares.

This summary does not address the effect of any U.S. federal taxation other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or foreign taxation. You are urged to consult your tax advisors regarding the foreign and United States federal, state and local tax considerations of an investment in ordinary shares.

For purposes of this summary, a U.S. Holder is:

- 58 -

- an individual who is a citizen or, for U.S. federal income tax purposes, a resident of the United States;
- a corporation, or other entity treated as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof;
 - an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust that (a) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons or (b) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Taxation of Dividends

Subject to the discussion below under the heading “Passive Foreign Investment Companies,” the gross amount of any distributions received with respect to ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. federal income tax purposes to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. You will be required to include this amount of dividends in gross income as ordinary income. Distributions in excess of our current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of your tax basis in the ordinary shares, and any amount in excess of your tax basis will be treated as gain from the sale of ordinary shares. See “--Disposition of Ordinary Shares” below for the discussion on the taxation of capital gains. Dividends will not qualify for the dividends-received deduction generally available to corporations under Section 243 of the Code.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Subject to complex limitations set out in the Code, any Israeli withholding tax imposed on such dividends will be a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability (or, alternatively, for deduction against income in determining such tax liability). The limitations set out in the Code include computational rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. Dividends generally will be treated as foreign-source passive income category or general category income for United States foreign tax credit purposes. A U.S. Holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the ordinary shares to the extent such U.S. Holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the statute. Further, there are special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to a reduced tax rate. The rules relating to the determination of the foreign tax credit are complex, and you should consult with your personal tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations, “qualified dividend income” received by a noncorporate U.S. Holder in tax years beginning on or before December 31, 2010 will be subject to tax at a reduced maximum tax rate of 15 percent. Distributions taxable as dividends paid on the ordinary shares should qualify for the 15 percent rate provided

that either: (i) we are entitled to benefits under the income tax treaty between the United States and Israel (the "Treaty") or (ii) the ordinary shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Treaty and that the ordinary shares currently are readily tradable on an established securities market in the United States. However, no assurance can be given that the ordinary shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied. With respect to the ordinary shares, the U.S. Holder must have held such shares for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date. The rate reduction also does not apply to dividends received from passive foreign investment companies, see discussion below, or in respect of certain hedged positions or in certain other situations. U.S. Holders of ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

Disposition of Ordinary Shares

If you sell or otherwise dispose of ordinary shares, you will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and adjusted tax basis in the ordinary shares. Subject to the discussion below under the heading “Passive Foreign Investment Companies,” such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A U.S. Holder who receives payment in NIS and converts NIS into United States dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss.

An accrual basis U.S. Holder may elect the same treatment required of cash basis taxpayers with respect to a sale or disposition of ordinary shares, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the Internal Revenue Service, or the IRS. In the event that an accrual basis U.S. Holder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury regulations applicable to foreign currency transactions), such U.S. Holder may have a foreign currency gain or loss for U.S. federal income tax purposes because of differences between the U.S. dollar value of the currency received prevailing on the trade date and the settlement date. Any such currency gain or loss would be treated as ordinary income or loss and would be in addition to gain or loss, if any, recognized by such U.S. Holder on the sale or disposition of such ordinary shares.

Passive Foreign Investment Companies

For U.S. federal income tax purposes, we will be considered a passive foreign investment company, or PFIC, for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, passive income includes dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets which produce passive income. If we were determined to be a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. Holders owning ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules.

Based on our current and projected income, assets and activities, we believe that we are not currently a PFIC nor do we expect to become a PFIC in the foreseeable future. However, because the determination of whether we are a PFIC is based upon the composition of our income and assets from time to time, there can be no assurances that we will not become a PFIC for any future taxable year.

If we are treated as a PFIC for any taxable year, dividends would not qualify for the reduced maximum tax rate, and, unless you elect either to treat your investment in ordinary shares as an investment in a “qualified electing fund”, or a QEF election, or to “mark-to-market” your ordinary shares, as described below:

- you would be required to allocate income recognized upon receiving certain dividends or gain recognized upon the disposition of ordinary shares ratably over the holding period for such ordinary shares,

- the amount allocated to each year during which we are considered a PFIC other than the year of the dividend payment or disposition would be subject to tax at the highest individual or corporate tax rate, as the case may be, in effect for that year, and an interest charge would be imposed with respect to the resulting tax liability allocated to each such year,
- the amount allocated to the current taxable year and any taxable year before we became a PFIC would be taxable as ordinary income in the current year, and
- you would be required to file an annual return on IRS Form 8621 regarding distributions received with respect to ordinary shares and any gain realized on your ordinary shares.

If you make either a timely QEF election or a timely mark-to-market election in respect of your ordinary shares, you would not be subject to the rules described above. If you make a timely QEF election, you would be required to include in your income for each taxable year your pro rata share of our ordinary earnings as ordinary income and your pro rata share of our net capital gain as long-term capital gain, whether or not such amounts are actually distributed to you. You would not be eligible to make a QEF election unless we comply with certain applicable information reporting requirements.

Alternatively, if the ordinary shares are considered “marketable stock” and if you elect to “mark-to-market” your ordinary shares, you will generally include in income, in each year in which we are considered a PFIC, any excess of the fair market value of the ordinary shares at the close of each tax year over your adjusted basis in the ordinary shares. If the fair market value of the ordinary shares had depreciated below your adjusted basis at the close of the tax year, you may generally deduct the excess of the adjusted basis of the ordinary shares over its fair market value at that time. However, such deductions generally would be limited to the net mark-to-market gains, if any, that you included in income with respect to such ordinary shares in prior years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of ordinary shares with respect to which the mark-to-market election is made, is treated as ordinary income or loss (except that loss on a disposition of ordinary shares is treated as capital loss to the extent the loss exceeds the net mark-to-market gains, if any, that you included in income with respect to such ordinary shares in prior years). Gain or loss from the disposition of ordinary shares (as to which a mark-to-market election was made) in a year in which we are no longer a PFIC, will be capital gain or loss.

Backup Withholding and Information Reporting

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

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

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

- 61 -

H. Documents on Display

We are subject to certain of the reporting requirements of the Securities and Exchange Act of 1934, as amended, or the Exchange Act, as applicable to “foreign private issuers” as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, and transactions in our equity securities by our officers and directors are exempt from reporting and the “short-swing” profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we file with the Securities and Exchange Commission an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also submit to the Securities and Exchange Commission reports on Form 6-K containing (among other things) press releases and unaudited financial information. We post our annual report on Form 20-F on our website (www.eltekglobal.com) promptly following the filing of our annual report with the Securities and Exchange Commission. The information on our website is not incorporated by reference into this annual report.

This annual report and the exhibits thereto and any other document we file pursuant to the Exchange Act may be inspected without charge and copied at prescribed rates at the Securities and Exchange Commission public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Securities and Exchange Commission’s public reference room in Washington, D.C. by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Exchange Act file number for our Securities and Exchange Commission filings is 0-28884.

The Securities and Exchange Commission maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the Securities and Exchange Commission using its EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system.

The documents concerning our company that are referred to in this annual report may also be inspected at our offices located at Sgoola Industrial Zone, Petach Tikva 49101, Israel.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to a variety of risks, including foreign currency fluctuations and changes in interest rates affecting primarily the interest on short-term credit lines and long-term loans.

Foreign Currency Exchange Risk

Our reporting currency is the U.S. dollar. Our revenues are primarily denominated in the U.S. dollar, while our expenses are primarily denominated in NIS, U.S. dollars and Euros. As a result, fluctuations in rates of exchange between NIS and non-NIS currencies may affect our operating results and financial condition. In addition, the NIS value of our U.S. dollar and Euro denominated revenues are negatively impacted by the depreciation of the U.S. dollar and the Euro against the NIS. The average exchange rate for the NIS against the U.S. dollar was 9.4% higher in 2009 than 2008 and the average exchange rate for the NIS against the Euro was 3.8% higher in 2009 than 2008, which had a positive impact on our operating results in 2009. The average exchange rate for the NIS against the dollar was 12.7% lower in 2008 than in 2007 and the average exchange rate for the NIS against the Euro was 6.4% lower in 2008 than

2007, which had a significant adverse effect on our operating results in 2008.

We estimate that a devaluation of 1% of the U.S. dollar against the NIS would result in a decrease of approximately \$180,000 in our operating income.

- 62 -

We have engaged external consultants to assist us to manage our foreign exchange risk. From time to time in the past we have engaged in hedging transactions in order to partially protect ourselves from currency fluctuation and inflation risks and may use hedging instruments from time to time in the future.

Commodity Price Risk

Cost of raw materials is a significant component of our cost of revenues. In 2009, the cost of raw materials used in production was \$11.7 million. A 1% increase or decrease in the cost of raw materials used in production would increase or decrease our cost of raw materials by approximately \$117,000.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our short-term credit lines, short-term loans and long-term loans. For information on the interest rates of our short-term credit lines, short-term loans and long-term loans, see Item 5B. "Operating and Financial Review and Prospects - Liquidity and Capital Resources." For purposes of specific risk analysis, we use sensitivity analysis to determine the impact that market risk exposure may have on the financial expenses derived from our short-term credit lines and long-term loans. A hypothetical increase of 1% in the interest rates would result in an increase of approximately \$84,000 in our financial expenses.

A hypothetical increase of 1% in the Israeli consumer price index would result in an increase of approximately \$4,000 in our financial expenses.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control over Financial Reporting

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

- 63 -

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

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, our management concluded that as of December 31, 2009, our internal control over financial reporting is effective.

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

Changes in Internal Control over Financial Reporting

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

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Eytan Barak, an outside director, meets the definition of an audit committee financial expert, as defined by rules of the Securities and Exchange Commission. For a brief listing of Mr. Barak's relevant experience, see Item 6.A. "Directors, Senior Management and Employees - Directors and Senior Management."

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees Paid to Independent Registered Public Accountants

The following table sets forth, for each of the years indicated, the fees billed by our independent registered public accountants, Somekh Chaikin, a member firm of KPMG International. All of such fees were pre-approved by our Audit Committee.

| Services Rendered | 2009 | 2008 |
|-------------------|------------|------------|
| Audit (1) | \$ 122,000 | \$ 151,000 |
| Tax (2) | 13,000 | 22,000 |
| Total | \$ 135,000 | \$ 173,000 |

(1) Audit fees relate to audit services provided for each of the years shown in the table, including fees associated with the annual audit, consultations on various accounting issues and audit services provided in connection with statutory or regulatory filings.

(2) Tax fees relate to services performed regarding tax compliance and international tax transfer pricing studies.

Pre-Approval Policies and Procedures

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

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Issuer Purchase of Equity Securities

Neither we nor any affiliated purchaser has purchased any of our securities during 2009.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

Under NASDAQ Marketplace Rule 4350, or Rule 4350, foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of Rule 4350. A foreign private issuer that elects to follow a home country practice instead of any of such provisions of Rule 4350, must

submit to NASDAQ, in advance, a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws.

On June 9, 2005, we provided NASDAQ with a notice of non-compliance with Rule 4350 with respect to the following NASDAQ rules:

- 65 -

- The requirement to maintain a majority of independent directors, as defined under the NASDAQ Marketplace Rules. Instead, we follow Israeli law and practice which requires that we appoint at least two outside directors, within the meaning of the Israeli Companies Law, to our board of directors. In addition, we have the mandated three independent directors, within the meaning of the rules of the Securities and Exchange Commission and NASDAQ, on our audit committee. See Item 6C. “Directors, Senior Management and Employees - Board Practices - Outside and Independent Directors.”
- The requirements regarding the directors’ nominations process. Under Israeli law and practice our board of directors is authorized to recommend to our shareholders director nominees for election. See Item 6C. – “Directors, Senior Management and Employees - Board Practices - Election of Directors.”
- The requirement regarding the quorum for any meeting of shareholders. Instead, we follow Israeli law and practice which provides that, unless otherwise provided by a company’s articles of association, the quorum required for a general meeting of shareholders is at least two shareholders present who hold, in the aggregate, 25% of the company’s voting rights. Our articles of association provide that the quorum required for a shareholder meeting consists of at least two shareholders present in person or represented by proxy who hold or represent, in the aggregate, at least 40% of the voting rights of the issued share capital. See Item 10A. “Additional Information - Share Capital - Annual and Extraordinary Meetings of Shareholders.”

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Consolidated Financial Statements

| | |
|--|-----|
| Report of Independent Registered Public Accounting Firm | F-1 |
| Consolidated Balance Sheets | F-2 |
| Consolidated Statements of Operations | F-4 |
| Consolidated Statements of Changes in Shareholders’ Equity and Comprehensive Income (loss) | F-5 |
| Consolidated Statements of Cash Flows | F-6 |
| Notes to the Consolidated Financial Statements | F-7 |

ITEM 19. EXHIBITS

Index to Exhibits

| Exhibit | Description |
|---------|---|
| 1.1 | Memorandum of Association of the Registrant (1) |
| 1.2 | Articles of Association of the Registrant, as amended (2) |
| 2.1 | Specimen of Share Certificate (1) |
| 4.1 | Form of Indemnification Agreement between Registrant and its officers and directors (3) |
| 4.2 | 2000 Stock Option Plan (4) |

- 4.3 Share Purchase Agreement, dated June 10, 2002, by and among En-Eltek Netherlands 2000 B.V., Kubatronik-Leiterplatten GmbH, Mr. Alois Kubat, Mr. Thomas Kubat and Ms. Heike Heidenreich (5)
- 4.4 Extension of Put/Call Option Agreement, dated May 4, 2005, by and between En-Eltek Netherlands 2000 B.V. and Mr. Alois Kubat (6)
- 4.5 Second Extension of Put/Call Option Agreement Provisions under the Share Purchase Agreement, dated December 28, 2007, by and between En-Eltek Netherlands 2000 B.V. and Mr. Alois Kubat (7)
- 4.6 English Translation of Lease Agreement dated June 26, 2002, by and between the Registrant and A.Z. Baranovitz – Assets and Rental Ltd. (8)
- 4.7 Addendum to Lease Agreement dated May 13, 2007, by and between the Registrant and A.Z. Baranovitz – Assets and Rental Ltd. (9)
- 4.8 Amendment and Supplement to a Lease Agreement dated June 7, 2002, by and between Kubatronik Leiterplatten GmbH and Ms. Karin Kubat.
- 4.9 English Translation of Letter of Extension dated December 18, 2007 to Lease Agreement dated June 7, 2002, by and between Kubatronik Leiterplatten GmbH and Ms. Karin Kubat.
- 8.1 List of Subsidiaries of the Registrant
- 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
- 15.1 Consent of Somekh Chaikin, a member firm of KPMG International, Independent Registered Public Accounting Firm

-
- (1) Filed as an exhibit to our registration statement on Form F-1, registration number 333-5770, as amended, and incorporated herein by reference.
 - (2) Filed as Exhibit 3.2 to our Annual Report on Form 20-F for the year ended December 31, 2003 and incorporated herein by reference.
 - (3) Filed as Exhibit 4.1 to our Annual Report on Form 20-F for the year ended December 31, 2008 and incorporated herein by reference.
 - (4) Filed as Exhibit 10.4 to our Annual Report on Form 20-F for the year ended December 31, 2000 and incorporated herein by reference.
 - (5) Filed as Exhibit 4.5 to our Annual Report on Form 20-F for the year ended December 31, 2004 and incorporated herein by reference.
 - (6) Filed as Exhibit 4.6 to our Annual Report on Form 20-F for the year ended December 31, 2004 and incorporated herein by reference.
 - (7) Filed as Exhibit 4.7 to our Annual Report on Form 20-F for the year ended December 31, 2007 and incorporated herein by reference.
 - (8) Filed as Exhibit 4.6 to our Annual Report on Form 20-F for the year ended December 31, 2008 and incorporated herein by reference.
 - (9) Filed as Exhibit 4.7 to our Annual Report on Form 20-F for the year ended December 31, 2008 and incorporated herein by reference.

Eltek Ltd. and its Subsidiaries

Consolidated Financial Statements as of December 31, 2009

Contents

| | Page |
|---|------|
| <u>Report of Independent Registered Public Accounting Firm</u> | F-1 |
| <u>Consolidated Balance Sheets</u> | F-2 |
| <u>Consolidated Statements of Operations</u> | F-4 |
| <u>Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (loss)</u> | F-5 |
| <u>Consolidated Statements of Cash Flows</u> | F-6 |
| <u>Notes to the Consolidated Financial Statements</u> | F-7 |

F - 0

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 Subsidiaries (the “Company”) as of December 31, 2009 and 2008 and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2009. 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 the board of directors and management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles (U.S. GAAP).

As discussed in Note 1T to the consolidated financial statements, the Company adopted the provisions originally issued as Statement of Financial Accounting Standards Board (“FASB”) No. 157, Fair Value Measurements, included in ASC Topic 820, Fair Value Measurements and Disclosures, as of January 1, 2008, for fair value measurements of all financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis.

As discussed in Note 1U to the consolidated financial statements, the Company adopted the provisions originally issued as Statement of Financial Accounting Standards Board (“FASB”) No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51, included in ASC Topic 810, Consolidation, as of January 1, 2009.

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

Tel-Aviv, Israel,
May 13, 2010

Consolidated Balance Sheets

| | Note | December 31 2009 | 2008 |
|---|------|---------------------|---------------|
| | | \$ in thousands | |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 2 | 1,258 | 1,556 |
| Trade accounts receivable, net of allowance for doubtful accounts | | 6,932 | 7,248 |
| Inventories | 3 | 3,938 | 4,429 |
| Prepaid expenses and other current assets | | 463 | 410 |
| Total current assets | | 12,591 | 13,643 |
| Assets held for employees' severance benefits | 9 | 1,432 | 1,166 |
| Fixed assets, net | 4 | 9,175 | 10,090 |
| Goodwill | 5 | 573 | 554 |
| Total assets | | 23,771 | 25,453 |

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

Consolidated Balance Sheets

| | Note | December 31 | |
|--|------|-----------------|---------------|
| | | 2009 | 2008 |
| | | \$ in thousands | |
| Liabilities and shareholders' equity | | | |
| Current liabilities | | | |
| Short-term credit and current maturities of long-term debt | 6 | 5,638 | 5,898 |
| Accounts payable: | | | |
| Trade | | 4,666 | 5,381 |
| Related parties | 16 | 713 | 561 |
| Other | 7 | 3,558 | 3,684 |
| Total current liabilities | | 14,575 | 15,524 |
| Long-term liabilities | | | |
| Long-term debt, excluding current maturities | 8 | 2,617 | 2,607 |
| Employee severance benefits | 9 | 1,440 | 1,363 |
| Total long-term liabilities | | 4,057 | 3,970 |
| 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, 2009 and 2008 | | 1,384 | 1,384 |
| Additional paid-in capital | | 14,328 | 14,328 |
| Cumulative translation adjustment related to reporting currency | | 2,635 | 2,596 |
| Cumulative foreign currency translation adjustments | | 309 | 268 |
| Capital reserves | | 695 | 695 |
| Accumulated deficit | | (14,522) | (13,642) |
| Total Eltek Ltd. shareholders' equity | | 4,829 | 5,629 |
| Non-controlling interest | | 310 | 330 |
| Total equity | | 5,139 | 5,959 |
| Total liabilities, shareholders' equity and non-controlling interest | | 23,771 | 25,453 |

/s/ Arieh Reichart
Arieh Reichart
President, Chief Executive Officer

/s/ Amnon Shemer
Amnon Shemer
Vice President, Finance and Chief
Financial Officer

/s/ Nissim Gilam
Nissim Gilam
Chairman of the Board of Directors

Date: May 13, 2010

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

F - 3

Consolidated Statements of Operations

| | Note | 2009 | Year ended December 31 | |
|--|------|-----------|------------------------------|-----------|
| | | | 2008 | 2007 |
| | | | \$ in thousands | |
| | | | (except loss per share data) | |
| Revenues | 12 | 36,442 | 43,138 | 37,476 |
| Cost of revenues | 16B | (30,882) | (37,282) | (31,879) |
| Gross profit | | 5,560 | 5,856 | 5,597 |
| Operating expenses | | | | |
| Research and development, gross | | - | - | 167 |
| Government grants | | - | (100) | (93) |
| Research and development expenses (income), net | | - | (100) | 74 |
| Selling, general and administrative expenses | | 6,016 | 7,199 | 5,683 |
| Impairment on goodwill | | - | 379 | - |
| Operating loss | | (456) | (1,622) | (160) |
| Financial expenses, net | 13 | (424) | (826) | (145) |
| Other income, net | | 4 | 1 | 8 |
| Loss before income tax expense | | (876) | (2,447) | (297) |
| Income tax expense | 14 | (34) | - | - |
| Net loss | | (910) | (2,447) | (297) |
| Net (profit) loss attributable to non-controlling interest | | 30 | 1 | (4) |
| Net loss attributable to Eltek Ltd. | | (880) | (2,446) | (301) |
| Basic and diluted net loss per ordinary share attributable to Eltek Ltd. shareholders | | (0.13) | (0.37) | (0.05) |
| Weighted average number of ordinary shares used to compute basic and diluted net loss per ordinary share attributable to Eltek Ltd. shareholders | | 6,610,107 | 6,610,107 | 6,246,904 |

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

Eltek Ltd. and its Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss)

| | Ordinary shares | | Company's shareholders | | | Capital reserves | Accumulated deficit | Non - controlling interest | Total |
|--|---|--------|----------------------------|----------------------------|-------------|------------------|---------------------|----------------------------|-------|
| | Shares | Amount | Additional paid-in capital | other comprehensive income | Accumulated | | | | |
| | (\$ thousands, except number of shares) | | | | | | | | |
| Balance as of December 31, 2006 | 5,624,011 | 1,236 | 14,152 | 2,087 | 695 | (10,895) | 353 | 7,628 | |
| Changes during the year | | | | | | | | | |
| Translation adjustment related to change in reporting currency | - | - | - | 741 | - | - | (35) | 706 | |
| Foreign currency translation adjustments | - | - | - | 35 | - | - | (11) | 24 | |
| Net profit (loss) | - | - | - | - | - | (301) | 4 | (297) | |
| Comprehensive income (loss) | - | - | - | - | - | - | (42) | 433 | |
| Convertible note and accrued interest thereon converted into ordinary shares | 985,796 | 148 | 176 | - | - | - | - | 324 | |
| Balance as of December 31, 2007 | 6,609,807 | 1,384 | 14,328 | 2,863 | 695 | (11,196) | 311 | 8,385 | |
| Changes during the year | | | | | | | | | |
| Translation adjustment related to reporting currency | - | - | - | 183 | - | - | (37) | 146 | |
| Foreign currency translation adjustments | - | - | - | (182) | - | - | 57 | (125) | |
| Net loss | - | - | - | - | - | (2,446) | (1) | (2,447) | |
| Comprehensive income (loss) | - | - | - | - | - | - | 19 | (2,426) | |
| Exercise of employee stock option | 300 | * | * | - | - | - | - | * | |
| Balance as of December 31, 2008 | 6,610,107 | 1,384 | 14,328 | 2,864 | 695 | (13,642) | 330 | 5,959 | |

| | | | | | | | | |
|--|-----------|-------|--------|-------|-----|-----------|-------|--------|
| Changes during the year | | | | | | | | |
| Translation adjustment related to reporting currency | | | | | | | | |
| | - | - | - | 39 | - | - | 21 | 60 |
| Foreign currency translation adjustments | | | | | | | | |
| | - | - | - | 41 | - | - | (11) | 30 |
| Net loss | - | - | - | - | - | (880) | (30) | (910) |
| Comprehensive loss | - | - | - | - | - | - | (20) | (820) |
| Balance as of | | | | | | | | |
| December 31, 2009 | 6,610,107 | 1,384 | 14,328 | 2,944 | 695 | (14,522) | 310 | 5,139 |

* Less than one thousand.

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

F - 5

Consolidated Statements of Cash Flows

| | Year ended December 31 | | |
|---|------------------------|-----------------|-----------------|
| | 2009 | 2008 | 2007 |
| | \$ thousands | | |
| Cash flows from operating activities: | | | |
| Net loss | (880) | (2,446) | (301) |
| Adjustments to reconcile net loss to net cash flows provided by operating activities: | | | |
| Depreciation and amortization | 2,030 | 2,224 | 2,264 |
| Impairment of goodwill | - | 379 | - |
| Capital gain on disposal of fixed assets, net | - | - | (3) |
| Non-controlling interest of subsidiary's net results | (30) | (1) | 4 |
| Interest payment on convertible note | - | - | (128) |
| Increase (decrease) in employee severance benefits, net | (104) | 65 | 3 |
| Decrease in trade receivables | 391 | 894 | 342 |
| Decrease (increase) in other receivables and prepaid expenses | (35) | 553 | (422) |
| Decrease (increase) in inventories | 510 | (140) | (106) |
| Increase (decrease) in trade payables | (763) | (885) | 152 |
| Increase (decrease) in other liabilities and accrued expenses | (169) | 531 | (271) |
| Other, net | 13 | 13 | (124) |
| Net cash provided by operating activities | 963 | 1,187 | 1,410 |
| Cash flows from investing activities: | | | |
| Purchase of fixed assets | (600) | (797) | (3,257) |
| Proceeds from sale of fixed assets | - | - | 3 |
| Net cash used in investing activities | (600) | (797) | (3,254) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short- term credit | 648 | (7) | 1,300 |
| Repayment of long-term loans | (2,468) | (1,592) | (1,837) |
| Proceeds from long-term loans | 1,341 | 669 | 3,048 |
| Proceeds from exercise of employee stock options | - | * | - |
| Repayment of credit from fixed asset payables | (140) | (542) | (206) |
| Net cash provided by (used in) financing activities | (619) | (1,472) | 2,305 |
| Effect of translation adjustments | (42) | 171 | (24) |
| Net increase (decrease) in cash and cash equivalents | (298) | (911) | 437 |
| Cash and cash equivalents at beginning of the year | 1,556 | 2,467 | 2,030 |
| Cash and cash equivalents at end of the year | 1,258 | 1,556 | 2,467 |

Supplemental cash flow information:

| | | | |
|---------------|-----|-----|-----|
| Interest paid | 336 | 571 | 457 |
|---------------|-----|-----|-----|

Non-cash activities:

| | | | |
|--|---|---|-----|
| Conversion of convertible note and accrued interest thereon into share capital | - | - | 324 |
|--|---|---|-----|

| | | | |
|---------------------------------------|-----|-----|-------|
| Purchase of fixed assets not yet paid | 306 | 387 | 1,030 |
|---------------------------------------|-----|-----|-------|

* Less than one thousand.

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

F - 6

Notes to the Consolidated Financial Statements

(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 and supplies advanced printed circuit boards ("PCB"), complex multi-layer back-panels, flex and flex rigid circuit boards for electronic equipment. 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 telecommunications equipment and 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, and (4) the Company's ability to receive regulatory clearance or approval to market its products or changes in regulatory environment. Further, the Company's liquidity position, as well as its operating performance, may be negatively affected by current economic and industry conditions and by other financial business factors, many of which are beyond its control. Although the Company anticipates that its existing capital resources, including availability of its lines of credit, supplier financing and cash flows from operations, will be adequate to satisfy its liquidity requirements through calendar year 2010, its liquidity could be negatively affected by a decrease in demand for its products, including the impact of changes in customer buying, general economic downturn, stability of the US dollar/ New Israel Shekel exchange rate, its results of operations, its suppliers' payment terms and its customers' demand for extending their payment terms and other risk factors beyond the Company's control. If available liquidity is not sufficient to meet the Company's operating and debt service obligations as they come due, management's plans include pursuing alternative financing arrangements or reducing expenditures as necessary to meet the Company's cash requirements throughout 2010. However, there is no assurance that, if required, the Company will be able to raise additional capital or reduce discretionary spending to provide the required liquidity.

The Company has developed a work plan for 2010. The budget is based on the assumption that the Company's revenues will increase in 2010, partly due to the improvement in the electronics industry and the PCB industry in particular following the global crisis, which started in the fourth quarter of 2008, the ripening of its marketing efforts in the United States and Europe and its receipt of the International Traffic in Arms Regulations Registration from the U.S. State Department, which certifies it to sell certain products to the U.S. defense market. The budget is also based on a reduction of costs, partly due to a manufacturing program that the Company has implemented, which includes efficiency measures such as reduced headcount and improved yield. The budget is based on a U.S. dollar/NIS exchange rate of 3.7, which has remained as such or above over the course of 2009. The Company expects that it will be in compliance with such covenants at December 31, 2010, however, its ability to be in compliance is dependent on factors such as the stability of the US dollar/NIS exchange rate, the demand for its products, including the impact of changes in customer buying, the conditions in the PCB industry, its manufacturing process, and other factors, thus it cannot assure compliance with such covenants nor that its financial condition will not worsen.

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)

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 a half million dollars and its balance as of December 31, 2009 is \$573.

Pursuant to the agreement, the seller has until December 31, 2012, which 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. The exercise price for the seller's remaining holdings in Kubatronik under the Put Option is Euro 552 (\$796), and the exercise price for the seller's remaining holdings in Kubatronik under the Call Option is Euro 582 (\$840). Through the date of these financial statements the seller has not approached the Parent to exercise the Put Option. The fair value of the above options is calculated based on the Binomial model and recorded in accounts payable in the balance sheet.

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.

B. Basis of presentation

The 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 (EN-Eltek, Kubatronik, Eltek USA Inc. and Eltek Europe GmbH).

All intercompany transactions and balances were eliminated in consolidation.

F - 8

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)

C. Functional and reporting currency

The Company'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 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.

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, 2007 | 191.15 | 3.846 | 5.659 |
| December 31, 2008 | 198.42 | 3.802 | 5.297 |
| December 31, 2009 | 206.19 | 3.775 | 5.442 |
| | | % | % |
| Changes during the year ended: | | | |
| December 31, 2007 | 3.5 | (8.97) | 1.71 |

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| | | | |
|-------------------|-----|---------|---------|
| December 31, 2008 | 3.8 | (1.12) | (6.39) |
| December 31, 2009 | 3.9 | (0.71) | 2.73 |

F - 9

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)

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. Significant items subject to such estimates and assumption include the useful lives of fixed assets, allowance for doubtful accounts, valuation of derivatives, deferred tax assets, inventory, goodwill, income tax uncertainties and other contingencies. Actual results could differ from these estimates.

G. Cash and 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.

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, 2009 is as follows:

| | Year ended December 31 | | |
|--|------------------------|-------|------|
| | 2009 | 2008 | 2007 |
| | \$ thousands | | |
| Opening balance | 555 | 565 | 477 |
| Additions during the year | 20 | 20 | 48 |
| Write-offs charged against the allowance | (256) | (36) | (7) |
| Foreign currency translation adjustments | 28 | 6 | 47 |
| Closing balance | 347 | 555 | 565 |

I. Inventories

Inventories are recorded at the lower of cost or market value. Cost is determined on the weighted average basis for raw materials and finished goods, and on the basis of actual manufacturing costs for work in progress.

F - 10

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)

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 |

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.

In accordance with Impairment or Disposal of Long-Lived Assets Subsections of FASB ASC Subtopic 360-10, Property, Plant, and Equipment - Overall, (previously FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets), 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, an 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.

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)

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 accordance with the provisions of FASB ASC Topic 350, Intangibles - Goodwill and Other (previously Statement No. 142, Goodwill and Other Intangible Assets). The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise 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 value, step two does not need to be performed.

The Company performs its annual impairment review of goodwill on an annual basis and when a triggering event occurs between annual impairment tests.

In 2009 and 2007, the Company concluded that there was no impairment of goodwill. In 2008, following the Company's annual impairment test of goodwill, a goodwill impairment charge of \$379 was recorded.

M. Taxes on income

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 carryforwards. 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. Beginning with the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, included in FASB ASC Subtopic 740-10 - Income Taxes - Overall, as of January 1, 2007, 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. Prior to the adoption of Interpretation 48, the Company recognized the effect of income tax positions only if such positions were probable of being sustained.

N. Revenue recognition

The Company recognizes revenues upon shipment of the products 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 sale price is fixed or determinable. Commission income is accounted for on the accrual basis.

F - 12

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)

O. Research and development

Research and development costs, net of grants from the Office of the Chief Scientist of the Ministry of Industry and Trade of the Government of Israel ("OCS"), are expensed as incurred.

The OCS grants are contingent upon the Company submission of periodic reports prepared in accordance with the requirement of the OCS and are not subject to royalties or any future payments to be made by the Company. The Company has been in compliance with such OCS requirements. There are currently no OCS programs in effect.

P. Stock compensation plans to employees and directors

The Company accounts for its employee stock-based compensation awards in accordance with ASC Topic 718, Compensation - Stock Compensation. ASC Topic 718 requires that all employee stock-based compensation is recognized as a cost in the financial statements and that for equity-classified awards such cost is measured at the grant date fair value of the award. The Company estimates grant date fair value using the Black-Scholes-Merton option-pricing model.

As of December 31, 2009, the Company has no outstanding options.

Q. Loss per ordinary share

Diluted earnings per ordinary share calculation is similar to basic earnings per share except that the weighed 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 effect of such dilutive instruments is not material.

R. Derivative financial instruments

The Company accounts for derivative financial instruments in accordance with FASB ASC Topic 815, Derivatives and Hedging (previously Statement No. 133, Accounting for Derivative Instruments and Certain Hedging Activities, as amended), which requires entities to recognize all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values. The Company utilizes derivative financial instruments principally to manage market risks and reduce its exposure resulting from fluctuations in foreign currency exchange rates. Derivatives that are not hedges 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

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

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

S. 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 requiring collateral or security with respect to certain receivables, and purchase of insurance for certain other receivables.

T. Fair value measurements

On January 1, 2008, the Company adopted the provisions originally issued as FASB Statement No. 157, Fair Value Measurements, included in ASC Topic 820, Fair Value Measurements and Disclosures, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

On January 1, 2009, the Company adopted the provisions of ASC Topic 820 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

U. Accounting pronouncements adopted in 2009

On January 1, 2009, the Company adopted the provisions originally issued as FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51, included in ASC Topic 810, Consolidation, which requires certain changes to the presentation of the financial statements. This amendment requires noncontrolling interests (previously referred to as “minority interest”) to be classified in the consolidated statements of income as part of consolidated net earnings (\$30 and \$1 for the years ended December 31, 2009 and 2008, respectively) and to include the accumulated amount of noncontrolling interests in the consolidated balance sheets as part of total equity (\$310 and \$330 at December 31, 2009 and December 31, 2008, respectively). The amount previously reported as net loss is now presented as net loss attributable to Eltek Ltd. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are remeasured with the gain or loss reported in net earnings.

Notes to the Consolidated Financial Statements

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

Note 2 - Cash and Cash Equivalents

| | December 31 | |
|-----------------------------|-------------|-------|
| | 2009 | 2008 |
| Denominated in U.S. dollars | 437 | 373 |
| Denominated in NIS | 266 | 697 |
| Denominated in Euro | 555 | 486 |
| | 1,258 | 1,556 |

Note 3 - Inventories

| | December 31 | |
|-------------------|-------------|-------|
| | 2009 | 2008 |
| Raw materials | 1,842 | 2,091 |
| Work-in-process | 1,373 | 1,401 |
| Finished products | 723 | 937 |
| | 3,938 | 4,429 |

Finished products are presented net of allowance for inventory obsolescence in the amounts of \$1,660 and \$1,527 as of December 31, 2009 and 2008, respectively.

Note 4 - Fixed Assets, Net

| | December 31 | |
|---|-------------|-----------|
| | 2009 | 2008 |
| Machinery and equipment | 33,665 | 32,789 |
| Leasehold improvements | 8,084 | 7,843 |
| Motor vehicles | 142 | 162 |
| Office furniture and equipment | 1,652 | 1,583 |
| Fixed assets | 43,543 | 42,377 |
| Accumulated depreciation and amortization | (34,368) | (32,287) |
| Fixed assets less accumulated depreciation and amortization | 9,175 | 10,090 |

Depreciation and amortization expense for the years ended December 31, 2009, 2008 and 2007 were \$2,030, \$2,224 and \$2,264, respectively.

Notes to the Consolidated Financial Statements

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

Note 5 - Goodwill

Changes in the carrying amount of goodwill for the years ended December 31, 2009 and 2008 are as follows:

| | 2009 | December 31 2008 |
|--------------------------------------|------|---------------------|
| Balance at the beginning of the year | 554 | 1,009 |
| Impairment | - | (379) |
| Effect of translation adjustments | 19 | (76) |
| | 573 | 554 |

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

| | Annual interest rate at December 31 2009 % | 2009 | December 31 2008 |
|---|--|-------|---------------------|
| In NIS (unlinked) | 4.5 - 5.25 | 4,252 | 3,525 |
| In U.S. dollars | 3.8 | 110 | 110 |
| Current maturities of long-term debts from banks (Note 8) | | 1,276 | 2,263 |
| | | 5,638 | 5,898 |

Note 7 - Accounts Payable - Other

| | 2009 | December 31 2008 |
|--|-------|---------------------|
| Accrued payroll and related benefits | 1,032 | 1,009 |
| Provision for vacation and other employee benefits | 1,196 | 1,121 |
| Net written put option (Note 1A) (*) | 240 | 187 |
| Accrued expenses | 801 | 1,094 |
| Derivative instruments (Note 13) | 14 | - |
| Other liabilities | 275 | 273 |
| | 3,558 | 3,684 |

(*)The change in the fair value of the option (excluding translation adjustments) as of December 31, 2009 in the amount of \$47 was charged to general and administrative expenses in the statement of operations.

Notes to the Consolidated Financial Statements

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

Note 8 - Long-Term Debt, Excluding Current Maturities

Banks and others

| | Annual interest rate at December 31 2009 | 2009 | December 31 2008 |
|---------------------------|---|----------|---------------------|
| Linkage terms | | | |
| U.S. dollar | 2.13 - 2.56 | 809 | 1,200 |
| NIS – linked to the CPI | 4.5 - 6.5 | 417 | 648 |
| Euro | 2.17 - 3 | 268 | 174 |
| NIS | 3.5 - 8.4 | 2,496 | 3,085 |
| | | 3,990 | 5,107 |
| Less - current maturities | | (1,373) | (2,500) |
| | | 2,617 | 2,607 |

Long-term debt includes capital leases in the amounts of \$268 and \$349 for the years ended December 31, 2009 and 2008, respectively.

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 the higher of shareholders' equity of NIS 17.5 million (\$4.6 million) or 17% of the Company's consolidated total assets. For this purpose, shareholders' equity excludes certain intangible assets and prepaid expenses (except insurance premiums). As of December 31, 2009, the Company was not in compliance with this covenant. However, in April 2010, the bank granted the Company a waiver, stating that the bank would not take any measures against the Company arising from the breach of said covenant, before the release of its audited financial statements for the year ending December 31, 2010, at which time the Company must return to compliance. The bank further clarified that compliance with the financial covenant would be measured annually with respect to the Company's audited financial statements for December 31 each year.

Financial covenants in respect of the Company's credit facilities and long-term debt with another bank required the Company to maintain the higher of shareholders' equity, excluding certain intangible assets and prepaid expenses (except insurance premiums), of NIS 24 million (\$6.4 million) or 23% of the Parent's total assets (on a non-consolidated basis). As of December 31, 2009, the Company was not in compliance with this covenant. However, in April 2010, the bank modified the covenant to the higher of shareholders' equity, excluding certain intangible assets and prepaid expenses (except insurance premiums) of NIS 16 million (\$4.2 million) or 17% of the Parent's total assets

(on a non-consolidated basis). At December 31, 2009, the Company was in compliance with these modified terms. The bank further clarified that compliance with this financial covenant would be measured annually with respect to the December 31 audited financial statements.

There can be no assurance that the Company will maintain compliance with its covenants in the future.

F - 17

Notes to the Consolidated Financial Statements

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

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

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2009 and thereafter are as follows:

| | |
|---------------------------------|-------|
| First year (current maturities) | 1,373 |
| Second year | 1,744 |
| Third year | 576 |
| Fourth year | 204 |
| Fifth year | 80 |
| Sixth year and thereafter | 13 |
| | 2,617 |
| | 3,990 |

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 majority of the Parent's non-management employees participate in a pension plan. 72% of the liability in respect of such employees is discharged by making regular deposits with a pension fund. The amount deposited with the pension fund 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.

In addition, occasionally, the Parent deposits with a Central Severance Pay Fund ("CSPF") in respect of those obligations under the Israeli Severance Pay Law which may not be covered in full by the above arrangements.

2. In respect of certain employees, 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.
3. In respect of the liability to other employees, individual insurance policies are purchased and deposits are made with recognized severance pay funds.

The liability for severance pay is calculated on the basis of the latest monthly salary paid to each employee multiplied by the number of years of employment. The liability is covered by the amounts

deposited including accumulated income thereon as well as by the unfunded provision.

F - 18

Notes to the Consolidated Financial Statements

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

Note 9 - Employee Severance Benefits (cont'd)

4. 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 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.

5. Expenses recorded in respect of employee severance payments for the years ended December 31, 2009, 2008 and 2007 are \$77, \$83 and \$79, 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 is in compliance with the conditions of the approval (see Note 14A).
3. The Company has also pledged a machine and a computer system to secure its indebtedness to certain suppliers.

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 2013, respectively.
2. The parking area that serves Israeli employees is leased under an operating agreement that expires in December 2012.

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 (cont'd)

3. The Parent has signed several lease and maintenance agreements for production equipment with suppliers of equipment. Of such agreements, the main principal agreement expired in March 2010.
4. Several production machines are leased by Kubatronik under operating agreements which will expire in August 2012 and March 2013.
5. The Parent has signed several other maintenance agreements for production equipment and software.
6. The majority of the Parent's motor vehicles are leased under three year operating agreements.
7. Minimum future payments at December 31, 2009 due under the above agreements over the next five years and thereafter are as follows:

| | Premises leases | Other agreements |
|---------------------------|--------------------|---------------------|
| First year | 833 | 578 |
| Second year | 833 | 355 |
| Third year | 833 | 207 |
| Fourth year | 786 | 8 |
| Fifth year | 721 | - |
| Sixth year and thereafter | 1,560 | - |
| | 5,566 | 1,148 |

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, 2009, 2008 and 2007 were \$1,360, \$1,477 and \$1,205 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

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

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

D. Contingent Liabilities

On March 15, 2009, the Parent received a notice from the Public Council for the Prevention of Noise and Pollution in Israel (the "Public Council"), regarding several alleged environmental damages caused by the Parent with respect to industrial waste water. Following extensive correspondence with the Public Council, the Parent requested to meet with their representative in order to demonstrate its plans for compliance with the regulatory requirements. On March 22, 2010, the legal counsel of the Public Council advised the Parent that the Public Council has decided to file a law suit and private criminal charges against the Parent, and will consider filing a preliminary injunction to cause the Parent to immediately refrain from discharging wastewater. On March 25, 2010, the Parent's legal counsel responded in writing explaining that the Parent had invested significant amounts and efforts in programs to reduce the concentrations of pollutants in the wastewater, reiterating its request for a meeting to present such programs and asking the Public Council to withdraw its notice that they had decided to file such claims.

On May 4, 2010, the Parent received legal notice from the Magistrate's Court that the Public Council had filed a law suit against it and certain of its directors regarding several alleged environmental damages caused by the Parent with respect to its release of industrial waste water. The Parent has 30 days to file a statement of defense. In its claim, the Public Council is seeking to compel the Parent

- to disconnect from municipal sewer system and to refrain from discharging contaminated wastewater into the sewer system.
- until the requested repairs are completed , to dispose of the wastewater that is deviating from the standards set by law to a permitted site and to allow the Public Council's representatives to inspect such disposal.
- to refrain from discharging wastewater into the municipal sewer system until receipt of the Public Council's approval or an approval from the Israeli Ministry of Environment that the Company has conducted the required repairs in order to conform the quality of the wastewater to legal requirements.
- to enable the Public Council's representatives to visit the Parent's plant and to inspect the quality of the wastewater that is discharged into the municipal sewer system.
- to pay all legal expenses and to be responsible for the Public Council's legal counsel's fee

Alternatively the Public Council requested the Court to provide any legal remedy it deems appropriate under the circumstances and in its discretion.

At this preliminary stage it is impossible for the Parent to assess the probability of the outcome of the lawsuit or to reasonably estimate its effect on the Parent's activities and financial results. If the court rules against the Parent, it could be liable for costs and expenses of remedial actions and may be forced to halt production until the alleged violations are remediated. The impact of such actions could have a material adverse affect on its financial condition and results of operations.

Notes to the Consolidated Financial Statements

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

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

D. Contingent Liabilities (cont'd)

On August 25, 2009, the Parent received a notice from the Petach Tikva Municipality claiming that random automatic wastewater sampling in proximity of its plant indicates high levels of metal concentrations which exceed the amounts permitted by law. The Municipality requested explanations to such alleged violation and further informed the Parent that its environmental department has determined that it shall 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 the Parent has invested extensive funds and resources each year in order to comply with all environmental legal requirements. The Parent further indicated that it has been engaged in several projects to reduce salt and metal concentrations in the plant's wastewater and that the Parent constantly updates its procedures with respect to environmental matters. In addition, the Parent has proposed to collaborate with the Municipality and conduct mutual tests to ensure maximum possible protection of the environment. To the financial statements date, the Parent has not received any response from the Municipality to its letter dated September 16, 2009. At this stage it is impossible for the Parent to assess the likelihood that a lawsuit will eventually be filed against it, and if so, its outcome and its effect on the Parent's activities and financial results.

If the Company is found to be in violation of environmental laws, it could be liable for damages, costs of remedial actions and a range of potential penalties, and could also be subject to revocation of permits necessary to conduct its business or any part thereof. Any such liability or revocation could have a material adverse effect on its business, financial condition and results of operations.

Note 11 - Shareholders' Equity

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

| | Authorized December 31 2008 and 2009 | Issued and outstanding December 31 2009 | December 31 2008 |
|---|--|---|---------------------|
| 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 | 7,800,312 | 1,384,318 | 1,384,318 |

Notes to the Consolidated Financial Statements

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

Note 11 - Shareholders' Equity

B. Stock based compensation

In August 2000, the Parent adopted the Eltek Ltd. 2000 Stock Option Plan (the "2000 Plan"). The 2000 Plan authorized the issuance of options to purchase an aggregate of 750,000 ordinary shares. The options generally expire on the fifth anniversary of the date of grant, vest ratably over a three-year period and may not be exercised for a period of one year from the date of grant. The exercise prices of these options are equal to the market price of the underlying stock on the date of the grant.

As of December 31, 2009, 2008 and 2007, options to purchase 0, 10,000 and 20,000 ordinary shares, respectively, with an exercise price of \$1.14 per share were outstanding under the 2000 Plan.

A summary of the Parent's 2000 Plan and the options that were granted to the Parent's employees and to the Chairman of the board of directors is presented below:

| | Number of options | Weighted average exercise price US\$ |
|---------------------------------|----------------------|---|
| Balance as at December 31, 2007 | 20,000 | 1.14 |
| Granted | - | - |
| Exercised | 300 | 1.14 |
| Expired | (9,700) | 1.14 |
| Balance as at December 31, 2008 | 10,000 | 1.14 |
| Granted | - | - |
| Exercised | - | - |
| Expired | (10,000) | 1.14 |
| Balance as at December 31, 2009 | - | - |

Notes to the Consolidated Financial Statements

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

Note 12 - Revenues

A. Revenues by activities

| | Year ended December 31 | | |
|-------------------------------------|------------------------|--------|--------|
| | 2009 | 2008 | 2007 |
| Sales of manufactured products | 36,022 | 41,300 | 36,997 |
| Sales of non- manufactured products | 265 | 1,521 | 266 |
| Commissions | 155 | 317 | 213 |
| | 36,442 | 43,138 | 37,476 |

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

| | Year ended December 31 | | |
|---|------------------------|--------|--------|
| | 2009 | 2008 | 2007 |
| Customer A * - Sales of manufactured products | 13.3 % | 15.7 % | 15.2 % |

* Consisting of two affiliated companies

B. Revenues by geographic areas

| | Year ended December 31, | | |
|-------------------|-------------------------|--------|--------|
| | 2009 | 2008 | 2007 |
| Israel | 17,043 | 20,893 | 18,505 |
| Europe | 9,600 | 13,195 | 13,602 |
| North America | 7,282 | 6,766 | 4,341 |
| Rest of the world | 2,517 | 2,284 | 1,028 |
| | 36,442 | 43,138 | 37,476 |

Notes to the Consolidated Financial Statements

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

Note 13 - Financial Expenses, Net

| | Year ended December 31 | | |
|---|------------------------|-------|--------|
| | 2009 | 2008 | 2007 |
| Interest and exchange rate expenses on long-term loans | 192 | 375 | 336 |
| Expenses on short-term credit and bank charges | 245 | 306 | 210 |
| Effect of exchange rate differences on other expenses and net gain (loss) from derivative instruments | (14) | 153) | (386) |
| Other financing expenses (income), net | 1 | (8) | (15) |
| | 424 | 826 | 145 |

The Company uses forward contracts and options to manage its foreign exchange rate exposures. Contracts with notional amounts of \$3,400 and \$1,200 and with estimated fair values that totaled (\$14) and \$127, at December 31, 2009 and 2007, respectively, were not designated as hedging instruments for accounting purposes. The changes in fair value of these contracts of (\$14) and \$124 for the years ended December 31, 2009 and 2007 have been recognized in finance income for these years. The periodic net cash (receipts) settlements totaled \$50, \$13 and \$380 for the years ended December 31, 2009, 2008 and 2007, respectively. These amounts have been recorded as reductions or additions to finance expense in those years.

Note 14 - Taxes on Income

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

1. Certain of the Parent's investment programs for the expansion of its production facilities in Israel were granted "approved enterprise" status or qualify for "benefited enterprise" status in accordance with the above Law. As of the date of these financial statements, one benefited investment program is applicable to the Parent.

The Parent's investment program is based on the Alternative Benefits track and provides for tax benefits as follows: a zero tax rate on the Parent's undistributed income arising from the profit that is derived from the "approved enterprise", for a period of two years, starting with the year in which the "approved enterprise" first earns taxable income. The income so derived in the five subsequent years will be subject to tax at a reduced rate of 25%. The tax benefits relating to the "benefited enterprise" program that is applicable to the Parent have not yet commenced, and will expire no later than 2016.

Entitlement to the above benefits is conditional upon the Parent complying with the conditions stipulated by the Law and the regulations promulgated thereunder, as well as the criteria set forth in the approval for the specific investment in the "benefited enterprise". In the event of failure to comply with these conditions, the tax benefits may be cancelled, and the Parent may be required to refund the amount of the cancelled benefits, together with CPI linkage adjustment and interest. See Note 10A2 for a pledge registered in this respect.

The period of tax benefits described above is limited to 12 years from the commencement of production, or 14 years from the approval date, whichever is earlier.

Notes to the Consolidated Financial Statements

(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)

The Law also grants entitlement to claim accelerated depreciation for tax purposes on machinery and equipment used by the "approved enterprise" or "benefited enterprise".

Income of the Parent not derived from the "approved enterprise" is subject to the regular corporate tax rate, which is 26% in 2009.

Dividends paid out of income derived from an "approved enterprise" (or out of dividends received from a company whose income is derived from an "approved enterprise") are generally subject to withholding tax at the rate of 15%. 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 a rate of 25% in respect of the gross amount of the dividend if the dividend is paid of exempt income derived from its "approved enterprise".

2. Amendments to the Law

On March 30, 2005, the Israeli Parliament approved a reform of the above Law. The primary changes are as follows:

- (a) Companies that meet the criteria of the Alternative Benefits track will receive those tax benefits without prior approval. In addition, there will be no requirement to file reports with the Investment Center. Companies will be required to notify the Israeli Tax Authorities regarding the implementation of the Alternative Benefits track. Audits will be the responsibility of the Israeli Income Tax Authorities as part of their tax audits. Request for pre-ruling is possible.
- (b) Tax benefits of the Alternative Benefits track include lower tax rates or no tax depending on area and the path chosen, lower tax rates on dividends and accelerated depreciation.
- (c) In order to receive benefits in the Grant Path or the Alternative Benefits track, the industrial enterprise must contribute to the economic independence of Israel's economy in one of the following ways:
 - 1. Its primary activity is in the Biotechnology or Nanotechnology fields and pre-approval has been obtained from the head of research and development at the OCS;
 - 2. Its revenue from a specific country is not greater than 75% of its total revenues that year;
 - 3. 25% or more of its revenues are derived from a specific foreign market of at least 12 million residents.
 - 4. Upon the establishment of an enterprise, an investment of at least NIS 300 thousand in production machinery and equipment within three years is required.

Notes to the Consolidated Financial Statements

(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. Amendments to the Law (cont'd)

5. For an expansion, a company is required to invest within three years the greater of NIS 300 thousand in production machinery and equipment or a certain percentage of its existing production machinery and equipment.

The amendments to the Law does not retroactively apply for investment programs having an "approved enterprise" approval certificate from the Investment Center issued prior to December 31, 2004. Therefore, the amendments do not impact an existing "approved enterprise" which received prior written approval. The new tax regime applies for new "approved enterprise" and for an "approved enterprise" expansions for which the first year of benefits is 2004 or thereafter.

B. Amendments to the Income Tax Ordinance

On July 25, 2005 the Knesset passed the Law for the Amendment of the Income Tax Ordinance (No. 147) - 2005, which provides, inter-alia, for a gradual reduction in the company tax rate to 25% as from the 2010 tax year.

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislation Amendments for Implementation of the 2009 and 2010 Economic Plan) - 2009, which provided, inter-alia, an additional gradual reduction in the company tax rate to 18% as from the 2016 tax year. In accordance with the aforementioned amendments, the company tax rates applicable as from the 2009 tax year are as follows: in the 2009 tax year - 26%, in the 2010 tax year - 25%, in the 2011 tax year - 24%, in the 2012 tax year - 23%, in the 2013 tax year - 22%, in the 2014 tax year - 21%, in the 2015 tax year - 20% and as from the 2016 tax year the company tax rate will be 18%.

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.

F - 27

Notes to the Consolidated Financial Statements

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

Note 14 - Taxes on Income (cont'd)

D. Tax loss carryforwards

As of December 31, 2009, the Parent's tax loss carryforwards were approximately \$17,500 and Kubatronik's tax loss carryforwards were \$1,030.

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 2004 tax year are considered final due to statute of limitations.

Kubatronik has received final tax assessments through the 2006 tax year.

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

F. Loss before income tax expense included in the statement of operations

| | Year ended December 31 2009 | Year ended December 31 2008 | Year ended December 31 2007 |
|---------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Loss before income tax expense: | | | |
| Israel | (807) | (2,462) | (347) |
| Foreign jurisdictions | (69) | 15 | 50 |
| Total | (876) | (2,447) | (297) |

Notes to the Consolidated Financial Statements

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

Note 14 - Taxes on Income (cont'd)

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 2009 | Year ended December 31 2008 | Year ended December 31 2007 |
|--|--------------------------------------|-----------------------------------|--------------------------------------|
| Loss before income taxes as reported in the consolidated statements of operations | (876) | (2,447) | (297) |
| Statutory tax rates | 26 % | 27 % | 29 % |
| Theoretical tax benefit calculated | (228) | (661) | (86) |
| Differences between the definition of capital and assets for tax purposes, goodwill impairment and other | 32 | 299 | (556) |
| Change in valuation allowance | (912) | 365 | 641 |
| Effective change in corporate tax rates | 1,113 | - | - |
| Foreign tax rate differential in subsidiaries | 29 | (3) | 1 |
| Total | 262 | 661 | 86 |
| Income tax expense | 34 | - | - |

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 2009 | December 31 2008 |
|---|---------------------|---------------------|
| Deferred tax assets: | | |
| Tax loss carryforwards (in Israel) | 3,218 | 4,060 |
| Tax loss carryforwards (outside Israel) | 300 | 235 |
| Severance benefits | 2 | 51 |
| Provision for vacation pay | 275 | 278 |
| Allowance for doubtful accounts | 80 | 144 |
| Total gross deferred tax assets | 3,875 | 4,768 |
| Less valuation allowance | (3,031) | (3,943) |
| Net deferred tax assets | 844 | 825 |
| Deferred tax liabilities: | | |
| Fixed assets - differences in depreciation | (844) | (825) |
| Total gross deferred tax liabilities | (844) | (825) |
| Net deferred tax assets | - | - |

The valuation allowance for deferred tax assets as of January 1, 2009 and 2008, was \$3,031 and \$3,943, respectively. The net change in the total valuation allowance for each of the years ended December 31, 2009, 2008 and 2007, was an increase (decrease) of (\$912), \$365 and \$641, respectively. The valuation allowance at 2009 and 2008 was primarily related to domestic and foreign net operating loss carryforwards that, in the judgment of management, are not more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. 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.

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

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result, the Company did not record any cumulative effect adjustment related to adopting FIN 48.

For the 12-month periods ended December 31, 2009, 2008 and 2007, 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 12 months.

The Parent files its income tax return in Israel and Kubatronik files its income tax return in Germany. The Israeli tax returns of the Parent are open to examination by the Israeli Tax Authorities for the tax years beginning in 2005 while the German tax returns of Kubatronik remain subject to audit for the tax years beginning in 2007.

Note 15 - Financial Instruments and Risk Management

The Company's financial instruments include cash and cash equivalents, trade accounts receivable, other current assets, short-term bank credit, trade and other payables, long-term debt and derivative instruments.

The Company is exposed to credit, interest and currency risks in the ordinary course of business. The Company uses derivative instruments in order to reduce the exposure to currency risks.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

For cash and cash equivalents, trade and other receivables, bank deposits, other current assets, short-term bank credit, trade and other payable, the carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

The fair value of the option as described in Note 1A calculated based on the Binomial model on a recurring basis totals \$240 as of December 31, 2009 and generated a loss of \$47 for the year then ended. Significant inputs used in this model use Kubatronik's fair value as discussed above under the fair value impairment.

Notes to the Consolidated Financial Statements

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

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

Long-term bank loans (including current maturities of bank loans) in the amount of \$3,721 as of December 31, 2009, are stated at amortized cost plus accrued interest. The fair value of these liabilities to banks assuming current market inputs as of December 31, 2009 for similar loans is \$3,465.

Fair Value Hierarchy

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
 - Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

None of the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2009, were measured using significant unobservable inputs (Level 3) as defined in ASC Topic 820 for the year ended December 31, 2009, except for the fair value of the option as described in Note 1A which is calculated based on the Binomial model.

The financial statements as of and for the year ended December 31, 2009 do not include any nonrecurring fair value measurements relating to assets or liabilities for which the Company has adopted the provisions of ASC Topic 820.

Notes to the Consolidated Financial Statements

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

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. The Company's transactions with related party are carried out on an arm's-length basis.

| A. | Balances with related parties | |
|------------------------|-------------------------------|-----------|
| | December 31 | |
| | 2009 | 2008 |
| | US\$ | US\$ |
| | thousands | thousands |
| Trade accounts payable | 713 | 561 |

| B. | Transactions with related parties | | |
|----------------------|-----------------------------------|-----------|-----------|
| | Year ended December 31 | | |
| | 2009 | 2008 | 2007 |
| | US\$ | US\$ | US\$ |
| | thousands | thousands | thousands |
| Cost of revenues (*) | 1,842 | 1,628 | 1,940 |

(*) The Company's purchases from such supplier accounted for 15.9%, 11.3% and 15.0% of its raw material costs in 2009, 2008 and 2007, respectively.

Note 17 - Subsequent Events

In April 2010, two of the Company's banks agreed to a deferral of all the principal payments due for the months April through July 2010 and 80% of the principal payments due for the months August through December 2010. The Company is obligated to repay the deferred payment amounts to one bank over a three-year period and to the other bank over a two to three-year period, beginning January 2011. Interest will be payable regularly. A third bank reduced the Company's line of credit by approximately \$400 over the course of 2010.

SIGNATURES

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

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 13, 2010

68
