ELTEK LTD
Form 20-F
April 02, 2015

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

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from __________ to __________

OR

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

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

Commission file number 0-28884

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)

20 Ben Zion Gelis Street, Sgoola Industrial Zone, Petach Tikva 4927920, Israel
(Address of principal executive offices)

Amnon Shemer, +972-3-9395025 (phone), +972-3- 9342584 (fax)
20 Ben Zion Gelis Street, Sgoola Industrial Zone, Petach Tikva 4927920, 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:

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 0.6 Nominal 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:

10,142,762 Ordinary Shares, nominal value NIS 0.6 per share (as of December 31, 2014)

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

Yes o No x

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

Yes o No x

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

Yes x No £

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 x 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 o Accelerated filer o Non-accelerated filer x

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

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

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

Item 17 o Item 18 o

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

Yes £ No x

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, flex-rigid and rigid, with high layer count boards. Our principal customers include manufacturers of defense and aerospace, medical, 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. 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 while our reporting currency is the U.S. dollar. 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. Our consolidated financial statements appearing in this annual report are prepared in accordance with U.S. GAAP. The consolidated financial statements appearing in this annual report are translated into 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 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 ($1.00 = NIS 3.889 as of December 31, 2014), 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.

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, or the Exchange Act, 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” ar 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.”

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected financial data, set forth in the table below, have been derived from our audited historical financial statements for the five years ended December 31, 2014. The selected consolidated financial data as of December 31, 2014 and 2013 and for each of the three years ended December 31, 2014 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, 2012 and 2011 and for the year ended December 31, 2010 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,	2014	2013	2012	2011	2010
	($ and share data in thousands, except per share data)				
Revenues	46,626	50,235	45,646	$ 46,830	$ 37,514
Cost of revenues	(40,604)	(42,242)	(37,836)	(38,101)	(32,690)
Gross profit	6,022	7,933	7,810	8,729	4,824
R&D expenses	(72)				
Selling, general and administrative expenses	(6,773)	(6,722)	(6,040)	(6,155)	(6,033)
Impairment on goodwill	(80)	-	(481)	-	-
Total operating expenses	(6,925)	(6,722)	(6,521)	(6,155)	(6,033)
Operating profit (loss)	(903)	1,271	1,289	2,574	(1,209)
Financial expenses, net	(356)	(439)	(543)	(740)	(609)
Other income, net	38	(26)	2	12	2
Profit (loss) before income tax expense	(1,221)	806	748	1,846	(1,816)
Income tax (expense) benefit	(1,634)	2,975	(52)	(31)	(19)
Net profit (loss)	(2,855)	3,781	696	1,815	(1,835)
Net profit (loss) attributable to non-controlling interest	190	42	6	(31)	(113)
Net profit (loss) attributable to Eltek Ltd. shareholders	(2,665)	3,823	690	1,846	(1,722)
Basic and diluted net profit (loss) per ordinary share attributable to Eltek Ltd.	(0.26)	0.53	0.1	0.28	(0.26)
Weighted average number of ordinary shares used to compute basic and diluted net profit (loss) per ordinary share	10,143	7,199	6,610	6,610	6,610

CONSOLIDATED BALANCE SHEETS DATA:

	As at December 31,				
	2014	2013	2012	2011	2010
	($ and share data in thousands)				
Working capital (deficit)	(72)	1,997	(2,712)	(1,787)	(4,064)
Total assets	26,266	31,454	23,449	22,869	23,837
Long-term liabilities	2,087	1,749	943	1,754	2,849
Total shareholders' equity	9,307	13,251	5,412	4,631	3,149
Number of issued and outstanding shares	10,143	10,143	6,610	6,610	6,610

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

One key customer accounts for a significant portion of our revenues. The loss of this customer or other key customers would have an adverse impact on our business results.

In the years ended December 31, 2014, 2013 and 2012, one customer (consisting of ten affiliated companies) accounted for 20.6%, 18.4% and 17.2% 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 maintain our level of business with such customers, or, if we are unable to attract sufficient new business to compensate for the loss of or reduction in business from any of our key customers, our results of operations and financial condition would be adversely affected.

Our results of operations may be adversely affected by currency fluctuations.

Our revenues and expenses are denominated in NIS, dollars and Euros. Due to the different proportions of currencies our revenues and expenses are denominated in, fluctuations in rates of exchange between NIS and other currencies may affect our operating results and financial condition. The NIS value of our dollar and Euro denominated revenues are negatively impacted by the depreciation of the dollar and the Euro against the NIS. The average exchange rate for the NIS against the dollar was 1.3% lower in 2014 than in 2013, which had a negative impact on our operating results in 2014. In the past, the NIS exchange rate against the dollar and other foreign currencies fluctuated, generally reflecting inflation rate differentials. We cannot predict any future trends in the rate of inflation in Israel or the rate of depreciation or appreciation of the NIS against the dollar. If NIS value of our dollar or Euro denominated revenues decreases, our results of operations will be adversely affected.

We are currently not engaged in hedging transactions. If we were to decide to enter into any hedging transactions in the future in order to protect ourselves in part from currency fluctuations, we may not be successful in our hedging efforts, or such transactions, if entered into may not materially reduce the effect of fluctuations in foreign currency exchange rates on our results of operations. Such hedging transactions may not necessarily mitigate the longer-term impact of currency fluctuations on the operating costs of our business operations, and may result in additional expenses.

Economic downturns and disruptions in financial markets can adversely affect our business and results of operations.

Our results of operations can be materially affected by adverse conditions in the financial markets and depressed economic conditions generally. Worsening economic conditions, such as the ongoing Eurozone crisis, may result in diminished demand for our products and in decreased sales volumes. Recessionary environments adversely affect the demand for our products as a result of 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. Any of these events may adversely affect our business, operating results and financial condition.

Continued losses of our Germany-based subsidiary, Kubatronik, could adversely affect our financial results

Our Germany-based subsidiary, Kubatronik Leiterplatten GmbH, or Kubatronik, has incurred losses in recent years. During the fiscal year 2014, we have financed Kubatronik's operational losses in the aggregate amount of 657,000 Euros ($863,000) such that Kubatronik's intercompany debt as of December 31, 2014 amounted to approximately 737,000 Euros ($895,000). In the event Kubatronik is unable to repay its debt to us, we may be required to record this inter-company debt as a loss. In the event the performance of Kubatronik does not improve, we may need to record impairment losses in respect of our investment. Also, continued losses by Kubatronik may have an adverse impact on our cash flows and financial results.

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.

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.

Our customers are also required to comply with various government regulations, legal requirements and industry standards, including many of the industry-specific regulations discussed above. Our customers' failure to comply could affect their businesses, which in turn would affect our sales to them. In addition, if our customers are required by regulation or other requirements to make changes in their product lines, these changes could significantly disrupt particular programs for these customers and create inefficiencies in our business.

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

Our principal customers include manufacturers of defense and aerospace, medical, 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 decline in the Israeli and international electronic markets may cause a decline in our revenues and adversely affect our operating results and financial condition in the future.

We have in the past been, and currently 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.

We have in the past been, and currently are, subject to claims and litigation relating to environmental matters. We may be subject to further environmental claims alleging that we are in violation of environmental laws. If we are unsuccessful in such claims and other future claims and litigations or if actual results are not consistent with our assumptions and judgments, we may be exposed to losses that could be material to our company.

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 to 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 invested 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 proposed to collaborate with the Municipality and conduct mutual tests to ensure maximum protection of the environment. To date, we have not yet received any response from the Municipality to our letter dated September 16, 2009.

In January 2014 and in July 2014, we received notices from Meitav, the water company of the Petach Tikva municipality, requiring payment of fees totaling NIS 1.4 million ($400,000) excluding VAT, for discharges of industrial wastewater allegedly not meeting the applicable standards into the municipal sewage system. The payment demands were made on the basis of four samplings conducted by Meitav in our premises during 2013.

We presented to Meitav our plans for a new wastewater treatment facility, in an effort to have Meitav rescind or reduce its demand for payment. Management believes that that we have good arguments against such demand for payment and that we will not be required to pay to Meitav any amounts exceeding the amounts provided for in our financial statements.

In July 2014, we entered into an agreement with Elad Technologies (L.S) Ltd., pursuant to which, Elad Technologies will build and operate a wastewater treatment facility for our use. The new wastewater treatment facility is expected to be completed in the second half of 2015.

If we are found to be in violation of environmental laws, then in addition to fees, 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.

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 major international PCB exporters, mainly from South East Asia, Europe and North America. In the European market we mainly compete with Advanced Circuit Boards NV (Belgium), AT&S Austria Technologie & Systemtechnik AG (Austria), Dyconex and Cicor (Switzerland), Graphics, Exception PCB and Invotec (United Kingdom), Cistelaier and Somacis (Italy), Schoeller-Electronics GmbH (formerly Ruwel Werke GmbH) (Germany) and certain other German companies. In the North American market we mainly compete with Viasystems North America, Inc. (previously known as DDi Corp.), KCA Electronics Inc., Lenthor Engineering, Printed Circuits, Inc., Teledyne and TTM Technologies Inc. and certain other American companies. 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 South East Asia (mainly in China), which have substantially lower production costs than us. Continued competitive pressures could cause us to lose significant market share.

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 South East Asia, raw material suppliers may focus their attention and give higher priority to manufacturers in those areas, 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, 2014, 2013 and 2012, our purchases from one supplier accounted for 24.1% 23.1% and 24.5% 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 not succeed in our efforts to expand into the U.S. defense market. If we are unsuccessful, our future revenues and profitability would be adversely affected.

In January 2009, we received International Traffic in Arms Regulations (ITAR) registration from the U.S. Department of State, which certifies us to sell our PCBs to the U.S. defense market. Our business plan assumes an increase in revenues to the U.S. defense market. However, our efforts to enter into to the U.S. defense market may not succeed and sales to the defense and aerospace industries may be affected by cutbacks in U.S. government spending, and this may not become a substantial market for us. If we are unsuccessful in such efforts, our future revenues and profitability would be adversely affected. In the event of a change in control of our company, the U.S. Department of State may investigate the transfer of control and oppose the transaction. In such an event we may lose our ITAR certification, which could adversely affect our future revenues and profitability. In November 2013, Nistec Ltd., or

Nistec, an Israeli private company controlled by Mr. Yitzhak Nissan, acquired a controlling interest in our company. While the U.S. Department of State did not object to this change in our control, we cannot assure you that such transaction may not be opposed in the future.

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

We have manufacturing facilities in Israel and Germany and generate a large percentage of our sales in Israel, Europe and North America. We intend to increase our business in North America, 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
- political and economic instability.

We may not be successful in achieving the potential benefits of our new relationship with Nistec.

In November 2013, Nistec acquired a controlling interest in our company. Acquisition transactions are subject to a variety of risks that could seriously harm our business, financial condition, results of operations, and share price. These risks include, among others:

- incurrence of unexpected expenses associated with acquisitions and their integration into our company;
- difficulties in the assimilation and integration of operations, personnel, technologies, products, and information systems of the companies;
- diversion of management's attention from other business concerns;
- contractual disputes;
- entering geographic and business markets in which we have no or only limited prior experience;
- potential loss of key employees;
- incompatible business cultures;
- difficulties in implementing and maintaining uniform standards, controls and policies;
- the impairment of relationships with employees and customers as a result of integration of new personnel; and
- potential inability to retain, integrate and motivate key management, marketing, technical sales and customer support personnel.

Compliance with the conditions of a new business permit may be costly.

In connection with the change of control of our company that resulted from Nistec's acquisition of a controlling stake in our company, Israeli law requires us to obtain a new business permit in order to continue operating our business. We have submitted an application for this permit, but we have not yet received the new permit. The new permit is expected to be subject to certain conditions, especially conditions imposed by the Israeli Ministry for Environmental Protection. Compliance with these conditions may be costly.

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

We have not maintained consistent profitable operations in the past, and there can be no assurance that we will be able to operate profitably in the future. To the extent that we incur operating losses in the future, we may have insufficient working capital to fund our operations. 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.

Our quarterly operating results fluctuate significantly. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

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 from lower priced manufacturers;
- fluctuations in foreign currency exchange rates, primarily the NIS against the dollar and the Euro;
- manufacturing yield;
- plant utilization;
- availability of raw materials;
- plant or line shutdowns to repair or replace 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 there will be significant differences between the results of one quarter to another.

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 30 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 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, it is very difficult to 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 may not be in compliance with financial covenants in our loan agreements in the future.

We are subject to financial covenants in the loan agreements from the banks that provide us with our credit facilities and long-term loans. 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 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.

Both of our banks require us to be in compliance with certain financial covenants in each fiscal year. Our compliance with the financial covenants is measured annually based on our annual audited financial statements. In recent years, we were forced to seek waivers of certain of these covenants. Both banks have the right to demand immediate repayment of the loans and lines of credit in the event of a change of control in our company, if such a change occurred without their prior approval. Our failure to remain in compliance with each of the banks' covenants, obtain waivers, negotiate agreements with new covenant terms, or obtain additional financing, if required, may adversely affect our business, results of operations and financial position.

Our products and related manufacturing processes are often highly complex and therefore we may be delayed in product shipment. Also our products may at times contain manufacturing defects, which may subject us to product liability and warranty claims.

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, we face an inherent business risk of exposure to warranty and product liability claims, which are likely to be substantial in light of the use of our products in business-critical applications. Our products may fail to perform as expected or may be alleged to result in bodily injury or property damage. If we were to manufacture and deliver products to our customers that contain defects, whether caused by a design, manufacturing or component failure, or by deficiencies in the manufacturing processes, it may result in delayed shipments to customers and reduced or cancelled customer orders. In addition, if any of our products are or are alleged to be defective, we may be required to participate in a recall of such products. Over the years we have been involved in claims or litigation relating to allegedly defective products. A successful warranty or product liability claim against us in excess of our established warranty and legal reserves or available insurance coverage, or a requirement that we participate in a product recall may have a material adverse effect on our business, financial condition, results of operations or cash flows and may harm our business reputation, which could lead to customer cancellations or non-renewals.

Our operating margins may 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.

Obstacles in our transition to a new enterprise resource planning (“ERP”) system may adversely affect our business and results of operations and the effectiveness of our internal control over financial reporting .

In the third quarter of 2014, we began the implementation of a new ERP system that will deliver a new generation of work processes and information systems. ERP implementations are complex and time-consuming projects and involve substantial expenditures. ERP implementations also require transformation of business and financial processes. We expect to complete the implementation of our new ERP system in 2015. If we do not effectively implement the new ERP system as planned or if the system does not operate as intended, it could adversely affect our financial reporting systems, our ability to produce financial reports and the effectiveness of our internal control over financial reporting.

We will 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: (i) the timing of orders and deliveries; (ii) net profit in the period; (iii) the purchase of new equipment; (iv) the build-up of inventories; (v) the payment terms offered to our customers; (vi) the payment terms offered by our suppliers; and (vii) approval of the current or additional lines of credit and long-term loans from banks.

As of December 31, 2014, we had revolving lines of credit aggregating - $2.7 million with our banks, all of which were fully utilized as of such date, and $2.3million of long-term loans, including supplier credits. These credit facilities may not remain available to us in the future. Furthermore, under certain circumstances the banks may require us to accelerate or make immediate payment in full 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.

During the last several years we were unable to fully fund our technological development requirements due to our losses and limited financial resources. In order to remain competitive, we will be required to acquire new equipment and implement new technologies, which are likely to require significant capital investment that may not be available to us. In November 2013, we raised $4.2 million from Nistec ,which is now our controlling shareholder, in a private placement of our ordinary shares. 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 will be required to raise additional funds through public or private financing or other sources. If additional funds are raised through the issuance of equity securities, the percentage ownership of our 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.

Breaches of network or information technology security, natural disasters or terrorist attacks could have an adverse effect on our business.

Cyber-attacks or other breaches of network or information technology (IT) security, natural disasters, pandemics, terrorist acts or acts of war may cause equipment failures or disrupt our systems and operations. Although we have not experienced any of these events as of the date of this annual report, we expect that our inability to operate our facilities as a result of such events, even for a limited period of time, may result in significant expenses and/or loss of market share to other competitors in the global PCB industry. While we maintain insurance coverage for some of these events, the potential liabilities associated with these events could exceed the insurance coverage we maintain. In addition, a failure to protect the privacy of customer and employee confidential data against breaches of network or IT security could result in damage to our reputation. Any of these occurrences could adversely affect our results of operations and financial condition.

In particular, both unsuccessful and successful cyber-attacks on companies have increased in frequency, scope and potential harm in recent years. We have been subject, and will likely continue to be subject, to attempts to breach the security of our networks and IT infrastructure through cyber-attack, malware, computer viruses and other means of unauthorized access. However, to date, we have not been subject to cyber-attacks or other cyber incidents which, individually or in the aggregate, resulted in a material impact to our operations or financial condition. While we use firewall and anti-virus systems, there is no assurance that cyber-attacks will always be blocked or discovered, and as a result, we may encounter damages to our computer network servers, manipulation of our data (including production, financial and other information).

If our workforce will be represented by a labor union we could incur additional costs or experience work stoppages as a result of the renegotiation of our labor contracts.

In November 2011, we were notified by the General Federation of Labor in Israel, or the Histadrut, that more than one-third of our employees in Israel had decided to join the Histadrut and that they established an employees' union committee. In 2012, a significant portion of our employees decided to resign their membership in the Histadrut, which then ceased to represent our employees. If our employees are represented by a union in the future, we could incur additional costs, experience work stoppages, either of which could adversely affect our business operations, including through a loss of revenue and strained relationships with customers.

New requirements related to conflict-free minerals may disrupt our operations, cause us to incur additional expenses, create challenges with our customers, or result in other significant adverse effects.

In August 2012, the SEC adopted new due diligence, disclosure and reporting requirements pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, regarding the use of certain minerals and derivative metals referred to collectively as "conflict minerals". Conflict minerals include tantalum, tin, gold, and tungsten. We use some of such minerals as component parts in our products. We have implemented procedures to investigate whether any such minerals that we manufacture or use in our products originated in the Democratic Republic of the Congo or adjoining countries. Our first report under these requirements was due by June 2, 2014, and was filed on May 27, 2014. Complying with these new SEC rules will be both time-consuming and costly. In addition, these rules could harm the sourcing, supply, and price of raw materials that we use in our products. If we cannot timely verify the sources of all conflict minerals used in our products, or if we cannot replace any conflict minerals sourced from the Democratic Republic of the Congo or adjoining countries with acceptable alternatives, we may face reputational damage or be unable to satisfy customers who require all of the components of our products to be certified as "conflict-free". If we cannot meet such customer requirements, our customers may choose not to purchase our products, and our results of operations would be materially adversely affected.

In addition to SEC regulations, industry standards and our customers may require us to comply with their own social responsibility, conflict minerals, quality or other business policies or standards, which may be more restrictive than current laws and regulations and our pre-existing policies, before they commence, or continue, doing business with us. Such policies or standards may be customer-driven, established by the industries in which we operate, or imposed by third party organizations. Our compliance with these policies, standards and third-party certification requirements could be costly, and our failure to comply could adversely affect our operations, customer relationships, reputation and profitability.

Increased regulation associated with climate change and greenhouse gas emissions could impose significant additional costs on operations.

Various governments and governmental agencies have adopted or are contemplating statutory and regulatory changes in response to the potential impacts of climate change and emissions of greenhouse gases. International treaties or agreements may also result in increasing regulation of climate change and greenhouse gas emissions, including the introduction of greenhouse gas emissions trading mechanisms. Any such law or regulation regarding climate change and greenhouse gas emissions could impose significant costs on our operations and on the operations of our customers and suppliers, including increased energy, capital equipment, environmental monitoring, reporting and other compliance costs. The potential costs of "allowances," "offsets" or "credits" that may be part of potential cap-and-trade programs or similar proposed regulatory measures are still uncertain. Any adopted future climate change and greenhouse gas laws or regulations could negatively impact our ability, and that of our customers and suppliers, to compete with companies situated in areas not subject to such laws or regulations. These statutory and regulatory initiatives, if enacted, may impact our operations directly or indirectly through our suppliers or customers. Until the timing, scope and extent of any future law or regulation becomes known, we cannot predict the effect on our business, financial condition, results of operations or cash flows.

We depend on key personnel for the success of our business.

Our success depends, to a significant extent, on the continued active participation of our executive officers and other key personnel. In addition, there is significant competition for employees with technical expertise in our industry. In order to succeed we would need to be able to:

- retain our executive officers and key technical personnel;

- attract and retain additional qualified personnel to provide technological depth and support to enhance existing products and develop new products; and

- attract and retain highly skilled operations, marketing and financial personnel.

We cannot make assurances that we will be successful in attracting, integrating, motivating and retaining key personnel. If we are unable to retain our key personnel and attract additional qualified personnel as and when needed, our business may be adversely affected.

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.

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 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.

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 in the next few years to replace or refurbish 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 will need to compete with PCB manufacturers in Asia whose manufacturing costs are lower than ours.

In recent years, many electronics manufacturers have moved their commercial production to Asia to take advantage of its exceptionally large, relatively low-cost labor pool. The continued outsourcing of production to the Far-East is likely to result in additional commercial market share potential for PCB manufacturers with a strong presence and reputation in such markets. Accordingly, we will need to compete with PCB manufacturers whose costs of production may be substantially lower than ours. This competition may limit our ability to price our products profitably, which could significantly harm our financial condition and results of operations.

The measures we take in order to protect our intellectual property may not be effective or sufficient.

Our success depends in part on our proprietary techniques and manufacturing expertise, particularly in the area of complex multi-layer and flex-rigid PCBs. We currently rely on a combination of trade secrets, copyright and trademark law, together with non-disclosure and invention assignment agreements, to establish and protect the proprietary rights and technology used in our products. Like many companies in the PCB industry, we do not hold any patents. 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.

We generally enter into confidentiality agreements with our employees, consultants, customers and potential customers and limit the access to and the distribution of our proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, or to develop similar technology independently. Further, the laws of certain countries in which we sell our products do not protect our intellectual property rights to the same extent as do the laws of the United States. Substantial unauthorized use of our products could have a material adverse effect on our business. We cannot make assurances that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar technology.

Claims that our products infringe upon the intellectual property of third parties may require us to incur significant costs.

While we do not believe that our products and proprietary rights infringe upon the proprietary rights of others, third parties may assert infringement claims against us or claims that we have violated a patent or infringed on a copyright, trademark or other proprietary right belonging to them. Any infringement claim, even one without merit, could result in the expenditure of significant financial and managerial resources to defend against the claim. Moreover, a successful claim of product infringement against us or a settlement could require us to pay substantial amounts or obtain a license to continue to use the technology that is the subject of the claim, or otherwise restrict or prohibit our use of the technology. We might not be able to obtain a license from the third party asserting the claim on commercially reasonable terms, if at all. We also may not be able to obtain a license from another provider of suitable alternative technology to permit us to continue offering the product. Infringement claims asserted against us could have a material adverse effect on our business, operating results and financial condition.

A supplier of one of our software packages requested to conduct an audit of our operation to verify that we do not breach any intellectual property rights he allegedly owns. We believe that we have fully, diligently and timely complied with our obligation toward the supplier. We also believe that the supplier has no right to conduct any audit of our products or services and such audit may cause us to breach confidentiality obligations to other entities. If we are found to be in violation of such supplier's intellectual property rights, we could be liable for compensation and costs of an unknown amount. Such liability could have a material adverse effect on our business, financial condition and results of operations.

Our products and product components need to meet certain industry standards.

Our products and product components need to meet certain standards for the aerospace, defense, and other industries to which we market our products. In addition, new industry standards in the aviation and defense industries could cause some or all of our products and services to become obsolete and unmarketable, which would adversely affect our results of operations. Noncompliance with any of these standards could limit our sales and adversely affect our business, financial condition, and results of operations.

We may be required to make payments to satisfy our indemnification obligations.

We have agreements with our directors and senior officers which may require us, subject to Israeli law and certain limitations in the agreements, to indemnify our directors and senior officers for certain liabilities and expenses that may be imposed on them due to acts performed, or failures to act, in their capacity as office holders as defined in the Israeli Companies Law 5759-1999. These liabilities may include financial liabilities imposed by judgments or settlements in favor of third parties, and reasonable litigation expenses imposed by a court in relation to criminal charges from which the indemnitee was acquitted or criminal proceedings in which the indemnitee was convicted of an offense that does not require proof of criminal intent. In addition, we agreed to exculpate our directors and officers with respect to a breach of their duty of care towards our company.

In addition, as part of the transaction in which Nistec acquired a controlling stake in our company, we agreed to indemnify Nistec for any losses or liabilities occasioned by the breach of any representations or warranties that we made in the investment agreement. If we are found to have breached any of these representations or warranties, we could be required to expend significant amounts of cash to meet our indemnification obligations. Payments made pursuant to such indemnification obligations may materially adversely affect our financial condition

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.

The 50.5% voting interest of Nistec, our controlling shareholder, may conflict with the interests of other shareholders.

As of March 31, 2015, Nistec beneficially owns 50.5% of our outstanding ordinary shares. Accordingly, Nistec has the ability to exercise a significant influence over our business and affairs and generally has the power to determine all matters submitted to a vote of our shareholders where our shares vote together as a single class, including the election of directors and approval of significant corporate transactions. Nistec may make decisions regarding Eltek and our business that are opposed to other shareholders' interests or with which other shareholders may disagree. Nistec's voting power could have the effect of deterring or preventing a change in control of our Company that might otherwise be beneficial to our other shareholders.

If we fail to maintain NASDAQ's continued listing requirement of a minimum bid price of at least $1.00 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 requirements, including a minimum bid price for our ordinary shares of $1.00 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. 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 $1.00 threshold requirement for continued trading. In 2014, the price of our ordinary shares ranged from $1.14 to $2.87 and the closing price of our ordinary shares on December 31, 2014 was $1.17 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 principal executive offices, production or manufacturing 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 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 trading partners, or a significant downturn in the economic or financial condition of Israel could adversely affect our business, financial condition and results of operations.

Since its establishment in 1948, Israel has been involved in a number of armed conflicts with its neighbors and a state of hostility, varying from time to time in intensity and degree, has continued into 2014. Since early July 2014, there has been a significant increase in hostilities between Hamas, an Islamist organization governing the Gaza Strip, and Israel, including missiles launched by Hamas from the Gaza Strip into Israel and airstrikes and ground operations conducted by Israel in the Gaza Strip. On July 21, 2014, all U.S. airlines and most major airlines of other nationalities suspended their flights to Israel's Ben-Gurion International Airport for several days after a missile landed approximately 1.5 km away. Also, since 2011, riots and uprisings in several countries in the Middle East and neighboring regions, including Egypt and Syria, have led to severe political instability in several neighboring states and to a decline in the regional security situation. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in areas that neighbor Israel, such as Hamas in Gaza and Hezbollah in Lebanon.

Any armed conflicts, terrorist activities or political instability in the region could adversely affect business conditions and could harm our results of operations and could make it more difficult for us to raise capital. Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary in order to meet our business partners face to face. In addition, the political and security situation in Israel may result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in such agreements. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect us in the future.

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.

Some of our employees, 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.

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Under current Israeli law, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.

We currently have non-competition clauses in the employment agreements of most of our employees. The provisions of such clauses prohibit our employees, if they cease working for us, from directly competing with us or working for our competitors. Recently, Israeli labor courts have required employers, seeking to enforce non-compete undertakings against former employees, to demonstrate that the competitive activities of the former employee will cause harm to one of a limited number of material interests of the employer recognized by the courts (for example, the confidentiality of certain commercial information or a company's intellectual property). In the event that any of our employees chooses to leave and work for one of our competitors, we may be unable to prevent our competitors from benefiting from the expertise our former employee obtained from us, if we cannot demonstrate to the court that we would be harmed.

There can be no assurance that we will not be classified as a passive foreign investment company (a "PFIC").

For U.S. federal income tax purposes, we may be classified as 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 quarterly value of our assets for the taxable year produce or are held for the production of passive income. Based upon our current and projected income, assets and activities, we do not believe that at this time we are a passive foreign investment company for U.S. federal income tax purposes, but there can be no assurance that we will not be classified as such in the future. Such classification may have significant tax consequences for U.S. Holders. One method that a U.S. Holder may use to avoid such tax consequences is making a "mark-to-market" election for each taxable year in which our company is a PFIC. For further explanation, including the definition of U.S. Holder, see Item 10E. "Additional Information - Taxation - United States Federal Income Taxation - Passive Foreign Investment Companies." You are advised to consult with your own tax advisor regarding the particular tax consequences related to the ownership and disposition of our ordinary shares under your own particular factual circumstances.

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 or all or a significant portion of our assets. Israeli corporate law regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions may limit the price that investors may be willing to pay in the future for our ordinary shares. Furthermore, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders.

These laws may have the effect of delaying or deterring a change in control of our company, thereby limiting the opportunity for shareholders to receive a premium for their shares and possibly affecting the price that some investors are willing to pay for our company's securities. 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. Currently there is not a clear definition of the duty of fairness under Israeli law. There is limited case law available to assist us in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on holders of our ordinary shares that are not typically imposed on shareholders of U.S. corporations.

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 Stock Market Rules. We follow Israeli law and practice instead of the NASDAQ Stock Market 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 regarding, for example, 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, or the SEC, or on its website, each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. 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 20 Ben Zion Gelis Street, Sgoola Industrial Zone, Petach Tikva 4927920, and our telephone number is +972-3-9395025. Our website is www.nisteceltek.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 North America. 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 South East Asia when customers require high volume production runs, although such activity was not significant in recent years.

In June 2002, we acquired a majority ownership interest in Kubatronik, a European manufacturing and marketing subsidiary 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.

In November 2013, Nistec acquired 50.5% of our issued share capital and gained control of our company.

During the three years ended December 31, 2014, we invested approximately $7.6 million in new equipment and the expansion of our facilities and infrastructure. Subject to availability of financial resources, we expect to invest approximately $2.2 million in capital expenditures in 2015, primarily for our operations in Israel and Germany, mainly for manufacturing equipment to expand our manufacturing capacity and to upgrade our technological capabilities. We intend to finance these expenditures with suppliers' credit, cash flow from operations and bank loans; however, 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 30 layers, although some PCBs are composed of 42 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.

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 2-3 mils and hole diameters of 4 to 6 mils.

Industry Trends

We believe that several trends are impacting the PCB manufacturing industry. These trends include:

Shorter electronic product life cycles. Continual advances in technology have shortened the life cycles of complex commercial electronic products, placing greater pressure on manufacturers to quickly bring new products to market. The accelerated time-to-market and ramp-to-volume needs of manufacturers for high-end commercial equipment create opportunities for PCB manufacturers that can offer engineering support in the prototype stage and manufacturing scalability throughout the production life cycle.

Increasing complexity of electronic products. Manufacturers continue to design higher performance electronic products which take advantage of advances in semiconductor technology. This in turn requires technologically complex PCBs that can accommodate higher speeds and component densities, including HDI, flexible and substrate PCBs. These complex PCBs can require very high layer counts, miniaturized circuit connections, advanced manufacturing processes and materials, and high-mix production capabilities, which involve processing small lots in a flexible manufacturing environment. Manufacturers increasingly rely upon larger PCB manufacturers, which possess the financial resources necessary to invest in advanced manufacturing process technologies and sophisticated engineering staff, often to the exclusion of smaller PCB manufacturers that do not possess such technologies or resources.

Increasing concentration of global PCB production in Asia. In recent years, many electronics manufacturers have moved their commercial production to Asia to take advantage of its exceptionally large, relatively low-cost labor pool. In particular, the trend has favored China, which according to industry sources had the largest PCB market in terms of both revenue and number of suppliers in 2012 The overall technical capability of suppliers in China has improved dramatically in recent years, and China has emerged as a global production center for cellular phones, smartphones, tablet PCs, computers and computer peripherals, and high-end consumer electronics. According to N.T. Information LTD, approximately 58% of the world's PCB production was forecasted to come from China, Hong Kong and Taiwan in 2013. The continued outsourcing of production to China should result in additional commercial market share potential for PCB manufacturers with a strong presence and reputation in China.

Decreased reliance on multiple PCB manufacturers. Manufacturers traditionally have relied on multiple PCB manufacturers to provide different services as an electronic product moves through its life cycle. The transfer of a product among different PCB manufacturers often results in increased costs and inefficiencies due to incompatible technologies and manufacturing processes and production delays. In addition, manufacturers generally find it easier and less costly to manage fewer PCB manufacturers. As a result, manufacturers are reducing the number of PCB manufacturers and backplane assembly service providers on which they rely, presenting an opportunity for those that can offer one-stop manufacturing capabilities — from prototype to volume production.

Increased requirements for aerospace and defense products. The aerospace and defense market is characterized by increasingly time-consuming and complex certification processes, long product life cycles, and a demand for leading-edge technology with extremely high reliability and durability. While the U.S. Department of Defense (DoD) budget faces increasing scrutiny as part of overall U.S. budget deficit reduction efforts, we anticipate that a continued DoD commitment to new product development and upgrades — incorporating leading-edge PCB technology in products for intelligence, surveillance and reconnaissance, communications and weapon systems — combined with Foreign Military Sales (FMS) programs and a recovering global commercial aerospace industry will support a significant long-term market for these products.

Manufacturing and Engineering Processes

Significant investments in equipment are necessary in order to maintain technological competitiveness in the PCB industry. During the three years ended December 31, 2014, we invested approximately $6.9 million in machinery and equipment for that purpose.

Manufacturing Capabilities. We have the capability to manufacture PCBs having in excess of 36 layers, flex-rigid boards, blind and buried vias and designs using materials as thin as 1 mil. We are able to produce short runs of five to 30 units of simple type PCBs within four 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. In July 2012, we purchased a new Orbotech Paragon™ Laser Direct Imaging, or LDI, system for increasing capacity and shortening production time and improving product time-to-market. In 2012, we also acquired and installed a new Hakuto Cut-Sheet-Laminator and the latest Chemplate Indubond model. In 2014 and in the beginning of 2015 we acquired a complete set of two Lauffer hot presses and one cold press, a line for outer layer surface preparation, a laser router and a second Hakuto cut-sheet-laminator (refurbished). These new pieces of equipment are expected to improve our technological capabilities. These machines improve the outer layer accuracy and the registration between the inner-layers, enabling us to offer our customers solutions and participate in bids in which we were not able to participate in the past.

We continue to utilize advanced registration technologies and to improve the copper etching accuracy to comply with new specifications and requirements of our customers and potential customers. We receive orders for production with turnaround times of generally between several days to two months.

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, 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, immersion silver, outsource nickel/palladium/gold and immersion tin, 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, mechanical and laser 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 9001:2008 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-55110G and MIL-P-50884E) 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 18001:2007 certified for occupation health and safety management systems since December 2007. In November 2009, we became certified to the AS 9100B quality management standard for the aerospace industry and in August 2012 we were upgraded to AS 9100C.

Enterprise Resources Planning (ERP) Software. In 2014 we acquired a new ERP system dedicated to the PCB industry from Proms. We expect to install and implement the system in 2015.

Sales, Customers and Marketing

Sales. In the years ended December 31, 2014, 2013 and 2012, the primary industries for which we produced PCBs were defense and aerospace equipment (46.4%, 51.8% and 48% of production, respectively), medical equipment (13.4%, 15.8% and 24% of production, respectively), industrial equipment (4.5%, 12.1% and 18% of production, respectively), distributors, contract electronic manufacturers and others (34.3%, 19.2% and 8% of production, respectively).

Customers. During the year ended December 31, 2014, we provided PCBs to approximately 199 customers in Israel and approximately 258 customers outside of Israel. Our customers outside of Israel are located primarily in North America, Germany, the Netherlands, China, Switzerland, Italy and India. Sales to non-Israeli customers were $21.9 million (47% of revenues) for the year ended December 31, 2014, $22.2 million (44.3% of revenues) for the year ended December 31, 2013 and $23.7 million (51.9% of revenues) for the year ended December 31, 2012.

Marketing. We market and sell our products primarily through our direct sales personnel, sales representatives and through PCB trading and manufacturing companies. We currently have eleven persons involved in sales, of which six persons are in Israel, two persons are in the United States employed by our U.S. subsidiary, Eltek USA Inc. and three persons are employed by our German subsidiary, Kubatronik. We also have sales representatives in Germany, Sweden, Finland, France and Spain. In the Netherlands, Italy, and South Africa, PCB trading and manufacturing companies act as distributors of our products. In North America we market and sell our products through Eltek USA Inc. as well as through independent local sales representatives. In India, we market our products through a local sales representative. 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 eleven persons, of which seven persons are in Israel, one person is employed by our U.S. subsidiary, Eltek USA Inc. and three persons are employed by 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 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 North America and Europe. In January 2014, we received accreditation from Nadcap, a global cooperative accreditation program for aerospace engineering and related industries, for our advanced circuitry solutions, including rigid and flex-rigid printed circuit boards.

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.

Materials and Supplies

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

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 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. The global PCB industry 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 PCB Technologies Ltd. and major PCB exporters, mainly from South East Asia, North America 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), Graphics, Exception PCB and Invotec (United Kingdom), Cistelaier and Somacis (Italy), Schoeller-Electronics GmbH (formerly Ruwel Werke GmbH) (Germany) and certain other German companies. In the North American market we mainly compete with Viasystems North America, Inc. (previously known as DDi Corp), 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.

Backlog

We estimate that our backlog of unfilled orders as of December 31, 2014, was approximately $5.7million compared to a backlog of approximately $10.1 million at December 31, 2013. We include in our backlog all purchase orders scheduled for delivery within the next 12 months. Because unfilled orders may be cancelled prior to delivery, the backlog outstanding at any point in time is not necessarily indicative of the level of business to be expected in the ensuing period.

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 contaminates 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. From 2008 through 2011, we invested in improving our effluent wastewater treatment system to lower the amounts of inorganic salts and copper concentration 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 enabled us to increase the amount of minerals disposed of by wastewater. The waiver was subsequently extended until December 2016. During 2014, we entered into an agreement with Elad Technologies, pursuant to which Elad Technologies will build and operate a wastewater treatment facility, which we expect to be operational in the second half of 2015. The facility is expected to reduce the amount of metal concentrations in our wastewater to the permitted levels.

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 June 2002, we acquired a 76% interest in Kubatronik, 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 21% interest in Kubatronik (after we acquired from him an additional 3% of shares of

Kubatronik in May 2012). 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. In May 2012, Mr. Kubat exercised his option with respect to 3% of the shares of Kubatronik for approximately Euro 69,000 and reduced his ownership percentage from 24% to 21%. The price for Mr. Kubat's remaining holdings in Kubatronik under the put option is Euro 483,000, while the price for such holdings under the call option is Euro 513,000. In recent years, Kubatronik has incurred losses, which were partially financed by Eltek Ltd., and we expect that its continued operations will require additional financing by Eltek. As at December 31, 2014 Kubatronik's debt to Eltek was EUR737,000 ($895,000).

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.

In November 2013, Nistec acquired a controlling 50.5% stake in our company and gained control of our company.

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, 2014, we incurred $849,000 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, owned by the wife of the former owner of Kubatronik. The lease for the facilities expires on December 31, 2018. In the year ended December 31, 2014, Kubatronik paid an aggregate of approximately Euro 83,000 ($111,000) in rent for these premises.

Our U.S. subsidiary, Eltek USA Inc., leases approximately 950 square feet office space in New Hampshire. In the year ended December 31, 2014, we paid $30,000 in rent for these premises. In February 2015, we signed a new lease agreement for 1,682- square feet in New Hampshire, which expires in February 2020, instead of the current facility.

Leased Equipment

We lease manufacturing equipment under an agreement that obligates us to pay a total of $667,000 through June 2017. Our monthly lease expense in 2015 under this agreement is $29,000.

Kubatronik leases manufacturing equipment under ten lease agreements, which as of December 31, 2014 require Kubatronik to pay a total of Euro 99,000 through May 2019. Kubatronik's monthly lease expense under these agreements is approximately Euro 3,000 ($4,000).

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.

In November 2013, Nistec acquired 50.5% of our issued share capital and gained control of our company.

We develop, manufacture, market and sell PCBs, including high density interconnect (HDI) multi-layered and flex-rigid boards for the defense and aerospace, medical technology, telecommunications and electronics 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 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 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 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.

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.

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

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. Long-lived assets and certain identifiable intangible assets are 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.

Intangible assets. Intangible assets are amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up, in accordance with ASC 350, "Intangibles - Goodwill and Other." Intangible assets were amortized based on the straight-line method or acceleration method.

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. 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. 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 fair value of an asset is estimated using estimated future cash flows of the asset discounted by a rate commensurate with the risk involved with such asset while incorporating marketplace assumptions. The estimate of future cash flows requires management to make certain assumptions and to apply judgment, including forecasting future sales, PCB market prices, raw material consumption, labor and other manufacturing expenses, and the useful lives of the assets. We exercised our best judgment based on the most current facts and circumstances surrounding our business when applying these impairment rules.

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

Commitments and contingencies. Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Recoveries of environmental remediation costs from third parties that are probable of realization are separately recorded as assets, and are not offset against the related environmental liability.

Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of expected future expenditures for environment remediation obligations are not discounted to their present value.

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,					
	2014		2013		2012	
Revenues	100	%	100	%	100	%
Cost of revenues	(87.1	)	(84.1	)	(82.9	)
Gross profit	12.9		15.9		17.1	
R&D expenses	(0.1	)	-		-	
Selling, general and administrative	(14.5	)	(13.4	)	(13.2	)

expenses			
Impairment loss on goodwill	(0.2)	-	(1)
Operating profit	(1.9)	2.5	2.8
Financial expenses, net	(0.8)	(0.9)	(1.2)
Other income, net	0.1	*	*
Profit before income tax expense and non-controlling interest	(2.6)	1.6	1.6
Income tax (expense) benefit	(3.5)	6.0	(0.1)
Net profit	(6.1)	7.6	1.5
Net profit (loss) attributable to non-controlling interest	(0.4)	*	*
Net profit (loss) attributed to shareholders	(5.7)	7.6	1.5

* Less than 0.1%

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Revenues. Revenues decreased by 7.2% to $46.6 million in the year ended December 31, 2014, from $50.2 million in the year ended December 31, 2013. The decrease in revenues is primarily attributable to decreased demand for our products, mainly from military customers.

Cost of Revenues. Cost of revenues decreased by 3.9% to $40.6 for the year ended December 31, 2014, from $42.2 million for the year ended December 31, 2013. The decrease in cost of revenues is primarily attributable to decreased revenues and to savings in manufacturing costs. Cost of revenues as a percentage of revenues increased to 87.1% for the year ended December 31, 2014, from 84.1% for the year ended December 31, 2013. The increase in cost of revenues as a percentage of revenues is primarily attributable to the decrease in revenues which was at a greater percentage than the reduction in costs.

Gross Profit. Gross profit decreased by 24.7% to $6 million for the year ended December 31, 2014, from $8 million for the year ended December 31, 2013. The decrease in gross profit is primarily due to the decrease in revenues and the increase in cost of sales as a percentage of sales. Gross profit as a percentage of revenues decreased to 12.9% for the year ended December 31, 2014, from 15.9% for the year ended December 31, 2013. The decrease in gross profit as a percentage of revenues is primarily attributable to to the decrease in revenues and the increase in cost of sales as a percentage of sales.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by 0.8% to $6.8 million in the year ended December 31, 2014, from $6.7 million in the year ended December 31, 2013.

R&D expenses. In 2014 we recorded R&D expenses of $72,000 in connection with our participation in the Printel program, 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. We did not record R&D expenses in 2013.

Impairment loss on goodwill. In 2014 we recorded a goodwill impairment loss of $80,000. We did not record a goodwill impairment loss in 2013.

Operating Profit (Loss). As a result of the foregoing, we recorded operating loss of $903,000 in the year ended December 31, 2014, compared to operating profit of $1.3 million in the year ended December 31, 2013.

Financial Expenses, Net. Financial expenses, net decreased by 18.9% to $356,000 in the year ended December 31, 2014, from $439,000 in the year ended December 31, 2013. Our financial expenses in 2014 were primarily attributable to interest paid on short-term and long-term debt and the impact of the NIS exchange rate on outstanding dollar and Euro denominated balances of our receivables from customers and debt to our suppliers. The decrease in financial expenses in 2014 compared to 2013 is primarily attributable to the decrease in our financial liabilities and to a lower interest rate we paid on our loans.

Other Income (Loss), Net. We had other income, net of $38,000 in the year ended December 31, 2014, compared to other loss, net of $26,000 in the year ended December 31, 2013, primarily as a result of sale and disposal of fixed assets.

Income Tax (Expense) Benefit. During the year ended December 31, 2014 we recorded a tax expense of $1.6 million compared to a tax benefit of $3 million in 2013. In 2014 we reduced certain of our deferred tax assets due to changes in the market conditions affecting the PCB markets and increased uncertainty about our ability to utilize these tax assets in the foreseeable future. Such uncertainty results from a reduced demand for our products, a change in the PCB buying patterns of our domestic military customers, which shifted some PCB acquisitions overseas, increased competition coupled with reduced prices in the local market, on-going manufacturing challenges, and possible devaluation of the U.S. dollar against the NIS, all of which may adversely affect our future profitability. Other tax expenses in 2014 were attributable to our subsidiaries in the United States and Germany. In 2013 we determined that certain of our deferred tax assets were more likely than not to be realized in future years, based on three years of consistent profits. Accordingly, we reversed the valuation allowances, in the amount of $2.5 million. The amount of the deferred tax assets considered realizable could be further reduced in the near term if estimates of future taxable income during the carryforward period are reduced. For the years ended December 31, 2014 and 2013, we did not record a 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.

Non-controlling interest. Non-controlling interest of $190,000 reflects the other shareholder’s proportionate share in Kubatronik’s net loss for the year ended December 31, 2014, as compared to $42,000 in Kubatronik’s net profit for the year ended December 31, 2013.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Revenues. Revenues increased by 10.0% to $50.2 million in the year ended December 31, 2013, from $45.6 million in the year ended December 31, 2012. The increase in revenues is primarily attributable to increased demand for our products, mainly from military customers.

Cost of Revenues. Cost of revenues increased by 11.6% to $42.2 million for the year ended December 31, 2013, from $37.8 million for the year ended December 31, 2012. The increase in cost of revenues is primarily attributable to increased revenues and devaluation of the dollar compared to the NIS, which increased the dollar value of our NIS denominated costs. Cost of revenues as a percentage of revenues increased to 84.1% for the year ended December 31, 2013, from 82.9% for the year ended December 31, 2012. The increase in cost of revenues as a percentage of revenues is primarily attributable to devaluation of the dollar compared to the NIS, which increased the dollar value of our NIS denominated costs.

Gross Profit. Gross profit increased by 2.3% to $8 million for the year ended December 31, 2013, from $7.8 million for the year ended December 31, 2012. The increase in gross profit is primarily due to the increase in revenues which was partly offset by the increase in cost of sales. Gross profit as a percentage of revenues decrease to 15.9% for the year ended December 31, 2013, from 17.1% for the year ended December 31, 2012. The decrease in gross profit as a percentage of revenues is primarily attributable to the increase in revenues which was partly offset by the increase in cost of sales.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by 11.3% to $6.7 million in the year ended December 31, 2013, from $6 million in the year ended December 31, 2012. The increase in selling, general and administrative expenses is mainly attributable to the devaluation of the U.S. dollar compared to the NIS, which increased the dollar value of the NIS denominated expenses (mainly salaries) and directors' fees for meetings in connection with the Nistec investment in our company.

Impairment loss on goodwill. We did not record a goodwill impairment loss in 2013. We recorded a goodwill impairment loss of $481,000 in 2012 following our annual impairment test of goodwill, in which we determined that the value of our investment in Kubatronik had decreased by that amount.

Operating Profit. As a result of the foregoing, we recorded operating profit of $1.3 million in the year ended December 31, 2013, compared to operating profit of $1.3 million in the year ended December 31, 2012.

Financial Expenses, Net. Financial expenses, net decreased by 19.2% to $439,000 in the year ended December 31, 2013, from $543,000 in the year ended December 31, 2012. Our financial expenses in 2013 were primarily attributable to interest paid on short-term and long-term debt and the impact of the NIS exchange rate on outstanding dollar and Euro denominated balances of our receivables from customers and debt to our suppliers. The decrease in financial expenses compared to 2012 is primarily attributable to the decrease in our financial liabilities.

Other Income, Net. We had other loss, net of $26,000 in the year ended December 31, 2013, compared to other income, net of $2,000 in the year ended December 31, 2012, primarily as a result of the loss recorded on the disposal of fixed assets.

Income Tax (Expense) Benefit. During the year ended December 31, 2013 we recorded a tax benefit of $3 million compared to tax expense of $52,000 in 2012. In 2013 we determined that certain of our deferred tax assets were more likely than not to be realized in future years, based on three years of consistent profits. Accordingly, we reversed the valuation allowances, in the amount of $2.5 million. Nevertheless, the amount of the deferred tax asset considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. The tax expense in 2012 was attributable to our subsidiaries in the United States and Germany. During the year ended December 31, 2012, we did not record a 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. For the years ended December 31, 2013 and 2012, we did not record a 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.

Non-controlling interest. Non-controlling interest of $42,000 reflects the other shareholder's proportionate share in Kubatronik's net loss for the year ended December 31, 2013, as compared to $6,000 in Kubatronik's net profit for the year ended December 31, 2012.

Impact of Currency Fluctuations and Inflation

Our revenues and expenses are denominated in the NIS, dollars and Euros. Due to the different proportions of currencies our revenues and expenses are denominated in, fluctuations in rates of exchange between NIS and other currencies may affect our operating results and financial condition. In addition, the NIS value of our dollar or Euro denominated revenues are negatively impacted by the depreciation of the dollar and the Euro against the NIS. The average exchange rate for the NIS against the dollar was 1.3% lower in 2014 than 2013 and the average exchange rate for the NIS against the Euro was 1.1% lower in 2014 than 2013, and in total, these changes had a negative impact on our operating results in 2014. The average exchange rate for the NIS against the dollar was 6.4% lower in 2013 than 2012 and the average exchange rate for the NIS against the Euro was 3.2% lower in 20123than 2012, and in total, these changes had a negative impact on our operating results in 2013.

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 dollar and Euro, between December 31 each year and December 31 of the year before, and (ii) inflation as reflected in changes in the Israeli consumer price index, or the CPI.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Dollar	12 %	(7)%	(2.3)%	7.7 %	(6.0)%
Euro	(1.2)%	(2.8)%	(0.4)%	4.2 %	(12.9)%
Israeli CPI	(0.2)%	1.8 %	1.6 %	2.2 %	2.7 %

From time to time in the past we have used currency hedging instruments in order to partially protect ourselves from currency fluctuation and may use hedging instruments from time to time in the future.

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 Operations in Israel" for a description of governmental, economic, fiscal, monetary or political polices 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 is also a member of the Organization for Economic Co-operation and Development, or the OECD, an international organization whose members are governments of mostly developed economies. The OECD's main goal is to promote policies that will improve the economic and social well-being of people around the world.

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 under the Income Tax Ordinance. The applicable rate for 2014 was 26.5%. 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, a certain portion of our income derived from such benefited enterprise will be subject to a zero tax rate, while the remainder will be taxed at a rate of up to 26.5%. Alternatively we may select a "preferred enterprise" status, which will allow us to be taxed at a rate of 16% on all of our income. For additional information see Item 10E. "Additional Information – Taxation - Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959" and Note 14 to our consolidated financial statements.

As of December 31, 2014, we had approximately $14.1 million in tax operating losses and $4.2 million in capital losses carry forwards 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 1996-2008 tax years are considered final due to the statute of limitations. Our European subsidiaries, Kubatronik and Eltek Europe, have received final tax assessments through the 2010 tax year. As of December 31, 2014, Kubatronik had approximately Euro 1.5 million ($1.8 million) in tax loss carry forwards in Germany for corporate tax and Euro 1.5 million ($1.8 million) for municipal corporate tax. Our U.S. subsidiary has not yet received any final tax assessments since its incorporation.

During 2013, we determined that a portion of our deferred tax assets were more likely than not to be realized in future years, based on three years of consistent profits. Accordingly, we reversed the valuation allowance in the amount of $2.5 million. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. 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.

Recently Issued Accounting Standards

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The new standard is to be applied prospectively but retrospective application is permitted. We implemented the provisions of ASU 2013-11 as of January 1, 2014.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued. If such conditions or events exist, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued. Disclosure should include the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, and management's plans that are intended to mitigate those conditions or events. ASU 2014-15 will be effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter.

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 and the proceeds from our initial public offering in 1997 (approximately $5.8 million).

As of December 31, 2014, we had $1.1 million in cash and cash equivalents and working capital of $3,000 compared to $2.5 million in cash and cash equivalents and working capital of $2.5 million at December 31, 2013.

Cash Flows

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

		($ in thousands)	
Year ended December 31,	2014	2013	2012
Net cash provided by operating activities	79	1,618	4,772
Net cash used in investing activities	(2,643)	(950)	(1,234)
Net cash used in financing activities	1,248	(113)	(2,390)
Effect of translation adjustments	(69)	24	(105)
Net increase (decrease) in cash and cash equivalents	(1,385)	579	1,043
Cash and cash equivalents at beginning of year	2,514	1,935	892
Cash and cash equivalents at end of year	1,129	2,514	1,935

The changes in assets and liabilities reflected in the cash flow statement do not correspond exactly to the respective amounts in the balance sheets included with this annual report, mainly because our functional currency is the NIS and our reporting currency is the dollar.

Net cash provided by operating activities was $79,000 in the year ended December 31, 2014. This amount was primarily attributable to our net loss of $2.9 million, adjustments for non-cash item of depreciation and amortization of $1.9 million, a $101,000 capital loss with respect to fixed assets, an increase in other liabilities and accrued expenses of $445,000, a decrease in deferred tax benefits of $1.5 million, and a $848,000 decrease in inventories (mainly work in process). This amount was offset in part by an increase of other receivables and prepaid expenses of $319,000, a decrease in trade payables of $1.4 million, a change in the severance benefits of $59,000 and an increase in trade receivables of $78,000.

Net cash provided by operating activities was $1.6 million in the year ended December 31, 2013. This amount was primarily attributable to our net income of $3.8 million, adjustments for non-cash item of depreciation and amortization of $1.7 million, an increase in trade payables of $655,000, an increase in other liabilities and accrued expenses of $147,000, decrease of other receivables and prepaid expenses of $46,000 and a change in employee severance benefits, net of $217,000. This amount was offset in part by an increase in deferred tax benefits of $3 million, an increase in trade receivables of $1.5 million, and a $451,000 increase in inventories (mainly finished goods and work in process).

Net cash provided by operating activities was $4.8 million for the year ended December 31, 2012. This amount was primarily attributable to our net income of $696,000, adjustments for non-cash items (consisting of depreciation and amortization) of $2.3 million, a decrease in trade receivables of $2.3 million resulting from payments of $1.3 million from two large customers, a decrease in other liabilities and accrued expenses of $281,000, a decrease in employee severance benefits, net of $53,000 and a revaluation of long term loans of $25,000. This amount was offset in part by a $670,000 increase in inventories, a decrease in trade payables of $147,000 and an increase in other receivables and prepaid expenses of $58,000.

Net cash used in investing activities was $2.6 million in the year ended December 31, 2014 compared to $950,000 in the year ended December 31, 2013 and $1.2 million in the year ended December 31, 2012. Net cash used in investing activities in the years ended December 31, 2014, 2013, and 2012 was primarily for the purchase of fixed assets for our production lines, expansion of our manufacturing facilities, including leasehold improvements, and the purchase of information technology software and hardware.

Net cash used in financing activities was $1.2 million in the year ended December 31, 2014, which was primarily attributable to a decrease in short-term credit of $ 1.4 million, repayment of long term loans of $806,000, and the repayment of credit from fixed assets payable of $477,000. These amounts were partially offset by proceeds from a long term loan of $1.2 million.Net cash used in financing activities was $113,000 in the year ended December 31, 2013, which was primarily attributable to our major shareholder's $3.5 million investment in our company, which was offset by a decrease in short-term credit of $2.6 million, repayment of long term loans of $564,000, and repayment of credit from fixed assets payable of $515,000. Net cash used in financing activities was $2.4 million in the year ended December 31, 2012, which was primarily attributable to repayments of long-term loans, net of $1.1 million, repayment of credit from fixed assets payable of $1.0 million and a decrease of $192,000 in short term credit.

As of December 31, 2014, we had a revolving line of credit of approximately $360,000 with Bank Hapoalim B.M., a revolving line of credit of approximately $2.3 million with Bank Leumi B.M. and a long-term loan from Bank Hapoalim B.M. of $1.2 million.

As of December 31, 2014, we also had long-term loans from suppliers of fixed assets in the aggregate amount of $1.2 million. Of such amount, $659,000 is linked to the Euro, $403,000 is linked to the dollar and $128,000 is not linked.

Our credit lines and short-term loans bear annual interest at Prime+ 0.9%.

Our long-term bank loans and loan from fixed asset suppliers bear annual interest as follows:

- linked to the dollar - from LIBOR+4% to LIBOR+4.5%
- linked to the Prime rate - Prime+0.9%

- linked to the Euro – from 2.17% to 3.86%.
- NIS not linked 6%
- linked to the dollar - from 5.89% to 8.56%.

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.

Bank Hapoalim and Bank Leumi require us to maintain a specific set of covenants each fiscal year. We are required to meet all of the following financial covenants: (i) maintaining adjusted shareholders' equity equal to the greater of $4.5 million or 17% of our consolidated total assets; and (ii) a debt service ratio of 1.5. For this purpose, adjusted shareholders' equity excludes certain intangible and other assets. Debt service ratio is defined as the ratio of EBITDA to current maturities of long-term debt plus interest expenses. As of December 31, 2014, we were in compliance with these covenants.

Capital expenditures on a cash flow basis for the years ended December 31, 2014 and 2013 were approximately $2.6 million and $950,000, respectively. In addition, purchases of fixed assets not yet paid as at December 31, 2014 amounted to $523,000 Our capital expenditures in such periods mainly related to our investments in production and manufacturing equipment, and in leasehold improvements. As of December 31, 2014 we had existing commitments to purchase $113,000 of equipment. We intend to finance our 2015 capital expenditures mainly with bank loans, suppliers' credit and 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 2015 budget from operational cash flow, revolving bank credit lines and long-term bank loans, and supplier financing. Although we anticipate that these capital resources will be adequate to satisfy our liquidity requirements through 2015, 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 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 2015. 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 research and development. In 2014, we were granted membership in Printel, 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. Printel was created specifically to develop printed electronic technologies that are an alternative innovative technology for the electronics 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.

D. Trend Information

Following a decline in revenues caused by the global financial crisis in 2008 and 2009, our revenues began to increase in 2010 and 2011, slightly declined in 2012, increased in 2013 and declined again in 2014, primarily due to a reduced demand for our products, mainly by the defense sector.

Our backlog at December 31, 2014 was approximately $5.7 million compared to a backlog of approximately $10.1 million at December 31, 2013. We include in our backlog all purchase orders scheduled for delivery within the next 12 months. The decline in our backlog was primarily due to the decline in demand for our products, mainly from military customers. 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, 2014.

Contractual Obligations	Payments due by period ($ in thousands)				
	Total	less than 1 year	2-3 years	4-5 years	more than 5 years
Short-term bank credit (1)	2,722	2,722	-	-	-
Long-term debt obligations (1)	2,347	509	1,134	704	
Operating lease	2,567	1,016	1,281	270	-
Other contractual obligations	1,258	639	614	5	
Purchase obligations	445	445			
Other short-term liabilities reflected on the company’s balance sheet (2)	5,156	5,156			
Other long-term liabilities reflected on the company’s balance sheet	249				249
Estimate of interest payments on long-term debt obligations (3)	139	48	72	19	
Total	14,883	10,535	3,101	998	249

(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 the estimated net value of our liability attributable to Mr. Kubat’s put option relating to his 21% ownership interest in Kubatronik under the agreement relating to the acquisition of our 76% ownership interest in Kubatronik in June 2002, which increased to 79% in May 2012. 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, 2014 (including current variable rates on the existing long-term debt obligations) and on the current volume of debt obligations, assuming loan repayment in future years as disclosed in Note 8 to the consolidated financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors

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

Name	Age	Position
Yitzhak Nissan (3)	65	Chairman of the Board of Directors and CEO
Mordechai Marmorstein (1)(2)	68	Director
Gavriel David Meron	62	Director
David Rubner	74	Director
Erez Meltzer	57	Director
Gad Dovev(1)(2)	68	External Director
Ophira Rosolio-Aharonson(1)(2)(3)		