ELTEK LTD
Form 20-F
April 30, 2009

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, 2008

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 EXCHANGEACT OF 1934**

Date of event requiring this shell company report ....
Commission file number 0-28884

ELTEK LTD.

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

Israel
(Jurisdiction of incorporation or organization)

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

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

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

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

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

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

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

6,610,107 Ordinary Shares, par value NIS 0.6 per share (as of December 31, 2008)

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 o

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 o No x

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

INTRODUCTION

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

Our functional currency is New Israeli Shekel, or NIS, while our reporting currency is the U.S. dollar. For periods prior to December 31, 2006, our consolidated financial statements were prepared in NIS, and in accordance with generally accepted accounting principles in Israel with a reconciliation to generally accepted accounting principles in the United States, or U.S. GAAP. Effective as of January 1, 2007, our consolidated financial statements are prepared in accordance with U.S. GAAP and our reporting currency is the U.S. dollar. The consolidated financial statements for prior periods presented have been restated and are presented in accordance with U.S. GAAP. The consolidated financial statements appearing in this annual report are translated into U.S. dollars at the representative rate of exchange under the current rate method. Under such method, the income statement and cash flows statement items for each year (or period) stated in this report are translated into U.S. dollars using the average exchange rates in effect at each period presented, and assets and liabilities for each year (or period) are translated using the exchange rate as of December 31 of each year ($1.00= NIS 3.802 as of December 31, 2008, as published by the Bank of Israel), except for equity accounts, which are translated using the rates in effect at the date of the transactions. All resulting exchange differences that do not affect our earnings are reported in the accumulated other comprehensive income as a separate component of shareholders equity.

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

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

Except for the historical information contained in this annual report, the statements contained in this annual report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, as amended, with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results. We urge you to consider that statements which use the terms anticipate, believe, do not believe, expect, plan, intend, estimate and similar expressions a 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.

TABLE OF CONTENTS

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

Effective as of January 1, 2007, our consolidated financial statements appearing in this annual report are prepared in accordance with U.S. GAAP and our reporting currency is the U.S. dollar. Our functional currency is the NIS. The consolidated financial statements for all prior periods presented have been restated and are presented in accordance with U.S. GAAP.

The selected financial data, set forth in the table below, have been derived from our audited historical financial statements for each of the years from 2004 to 2008. The selected consolidated financial data as of December 31, 2008 and 2007 and for each of the three years ended December 31, 2008, 2007 and 2006 have been prepared in accordance with U.S. GAAP, and are derived from our audited consolidated financial statements and accompanying notes included in Item 18, Financial Statements. The selected consolidated financial data as of December 31, 2006 and for the year ended December 31, 2005 have been prepared in accordance with U.S. GAAP, and have been derived from our previously published audited consolidated financial statements, which are not included in this annual report. The selected consolidated financial data as of December 31, 2005 and 2004 and for the year ended December 31, 2004 have been prepared in accordance with Israeli GAAP, which were reconciled to U.S GAAP for presentation purposes in the following table to conform to the presentation of the subsequent years, and have been derived from our previously published audited consolidated financial statements, which are not included in this annual report. You should read the selected consolidated financial data set forth below together with Item 5. Operating and Financial Review and Prospects as well as our consolidated financial statements and accompanying notes appearing elsewhere in this annual report.

CONSOLIDATED STATEMENT OF OPERATIONS DATA:

	Year Ended December 31,				
	2008	2007	2006	2005	2004

	Year Ended December 31,				
	($ in thousands, except per share data)				
Revenues	$ 43,138	$ 37,476	$ 39,045	$ 32,177	$ 27,913
Cost of revenues	(37,282)	(31,879)	(30,557)	(25,638)	(24,269)
Gross profit	5,856	5,597	8,488	6,539	3,644
Research and development (expenses) income, net	100	(74)	(154)	(144)	-
Selling, general and administrative expenses	(7,199)	(5,683)	(5,580)	(4,409)	(4,096)
Impairment on goodwill	(379)	-	(473)	-	-
Total operating expenses	(7,478)	(5,757)	(6,207)	(4,553)	(4,096)
Operating profit (loss)	(1,622)	(160)	2,281	1,986	(452)
Financial expenses, net	(826)	(145)	(538)	(592)	(658)
Other income, net	1	8	5	23	11
Profit (loss) before income tax benefit (expense) and minority interest	(2,447)	(297)	1,748	1,417	(1,099)
Income tax benefit (expense)	-	-	(158)	-	159
Profit (loss) after income tax expense benefit (expense)	(2,447)	(297)	1,590	1,417	(940)
Minority interest	1	(4)	60	49	41
Net profit (loss)	(2,446)	(301)	1,650	1,466	(899)
Basic net earnings (loss) per ordinary share	(0.37)	(0.05)	0.29	0.26	(0.16)
Diluted net earnings (loss) per ordinary share	(0.37)	(0.05)	0.24	0.22	(0.16)
Weighted average number of ordinary shares used to compute basic net earnings (loss) per ordinary share	6,610	6,247	5,617	5,575	5,478
Weighted average number of ordinary shares used to compute diluted net earnings (loss) per ordinary share	6,610	6,247	6,954	6,785	5,478

CONSOLIDATED BALANCE SHEETS DATA:

	As at December 31,				
	2008	2007	2006	2005	2004
	($ in thousands)				
Working capital (deficit)	(1,881)	733	1,689	(983)	(2,542)
Total assets	25,453	29,182	24,108	20,012	19,381
Long-term liabilities excluding current maturities	3,970	5,631	4,255	2,635	2,477

	As at December 31,				
Shareholders' equity	5,629	8,074	7,275	4,929	3,481

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

Risks Relating to Our Business and Market

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

We incurred operating losses in the last two fiscal years and in 2004 and we may not be able to achieve and sustain profitable operations in the future. Even if we return to profitability, our future net income may not offset our cumulative losses. Our losses in 2008 are primarily attributable to the depreciation of the U.S. dollar against the NIS, which adversely affected the U.S. dollar value of our NIS denominated expenses, the decline in sales in the last quarter of 2008 arising from the reduction in capital spending by our customers in reaction to the turmoil in the global marketplace, and a goodwill impairment loss that we incurred in such period. In past years, our losses were also attributable to increased costs for raw materials, increased energy costs, increased other manufacturing expenses and competition from other manufacturers. To the extent that we continue to incur operating losses, we may not have sufficient working capital to fund our operations in the future. If we do not generate sufficient cash from operations, we will be required to obtain additional financing or reduce our level of expenditure. Such financing may not be available in the future, or, if available, may not be on terms favorable to us. If adequate funds are not available to us, our business, and results of operations and financial condition will be materially and adversely affected.

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

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

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

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

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

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

Our quarterly operating results fluctuate significantly.

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

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

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

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

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

Our results of operations may be harmed by currency fluctuations.

Our reporting currency is the U.S. dollar. Our revenues are primarily denominated in the U.S. dollar, while our expenses are primarily denominated in NIS, U.S. dollars and Euros. As a result, fluctuations in rates of exchange between NIS and non-NIS currencies may affect our operating results and financial condition. The U.S. dollar value of our expenses that are denominated in NIS or Euros are negatively impacted by the depreciation of the U.S. dollar against the NIS and Euro. In 2008, 2007 and 2006, the NIS appreciated against the U.S. dollar by 1.1%, 9.0% and 8.2%, respectively, which had a significant adverse affect on our results of operations. In 2008, the Euro depreciated against the U.S. dollar by 5.5%, while in 2007 and 2006, the Euro appreciated against the U.S. dollar by 11.7% and 11.3%, respectively.

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

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

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

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

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

We recently received International Traffic in Arms Regulations registration from the U.S. Department of State, which certifies us to sell our PCBs to the U.S. defense market, and we intend to invest significant resources in such market. Our efforts to enter into to the U.S. defense market may not succeed, and this may not become a substantial market for us. If we are unsuccessful in such efforts, our investments may be lost and our future revenue and profitability would be adversely affected.

Our results may be adversely affected by product liability claims.

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

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

Technological change in the PCB industry is rapid and continual. To satisfy customers needs for increasingly complex products, PCB manufacturers must continue to develop improved manufacturing processes, provide innovative solutions and invest in new facilities and equipment. To the extent we determine that new technologies and equipment are required to remain competitive, the acquisition and implementation of such technologies and equipment are likely to require significant capital investment. We expect that we will need to invest large amounts during the next years to renew old equipment and to remain competitive in the market. This capital may not be available to us in the future for such purposes and any new manufacturing processes developed by us may not become or remain commercially viable. As a result, we may not be able to maintain our current technological position. Furthermore, the PCB industry may in the future encounter competition from new technologies that may reduce demand for PCBs or may render existing technology less competitive or obsolete. Our future process development efforts may not be successful or the emergence of new technologies, industry standards or customer requirements may render our technology, equipment or processes obsolete or uncompetitive.

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

In the years ended December 31, 2008, 2007 and 2006, our ten largest customers accounted for 50%, 52% and 61% of our revenues, respectively, of which one customer (consisting of two affiliated companies) accounted for 15.7%, 15.2% and 11.7% of our total revenues, respec