LINCOLN NATIONAL CORP
Form 424B4
April 04, 2006

PROSPECTUS SUPPLEMENT
(To prospectus dated March 14, 2006)

**Filed Pursuant to Rule 424B(4)**
**Registration No. 333-132416**

# $1,000,000,000

# Lincoln National Corporation

## $500,000,000 Floating Rate Senior Notes due 2009

## $500,000,000 6.15% Senior Notes due 2036

This is an offering by Lincoln National Corporation of $500,000,000 aggregate principal amount of its Floating Rate Senior Notes due 2009 (the floating rate notes ) and $500,000,000 aggregate principal amount of its 6.15% Senior Notes due 2036 (the fixed rate notes, and collectively with the floating rate notes, the notes ).

The floating rate notes will bear interest at a rate per year equal to the three-month LIBOR (as defined herein) plus a margin equal to 11 basis points. The fixed rate notes will bear interest at a rate of 6.15% per year. The floating rate notes will mature on April 6, 2009. The fixed rate notes will mature on April 7, 2036.

Interest on the floating rate notes will be paid quarterly on each January 6, April 6, July 6, and October 6 commencing on July 6, 2006. We will pay interest on the fixed rate notes on each April 7 and October 7, commencing October 7, 2006.

The notes will be issued in denominations of $2,000, and integral multiples of $1,000, will be our unsecured obligations and will rank equally in right of payment with all existing and future unsecured unsubordinated indebtedness.

We may redeem the fixed rate notes in whole or in part prior to their maturity at any time at the redemption price described in Description of the Notes Optional Redemption. We may not redeem the floating rate notes prior to their maturity.

The notes will not be subject to redemption at the option of the holder or to any sinking fund payments.

***Investing in the notes involves risks. See Risk Factors beginning on page S-8 of this prospectus supplement.***

| | Price to the Public | Underwriting Discounts and Commissions | Proceeds to LNC (before expenses) |
|---|---|---|---|
| **Per floating rate note** | 100% | 0.25% | 99.750% |
| **Per fixed rate note** | 99.336% | 0.875% | 98.461% |
| **Total** | $ 996,680,000 | $ 5,625,000 | $ 991,055,000 |

***Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying base prospectus is truthful or complete. Any representation to the contrary is a criminal offense.***

The notes will not be listed on any securities exchange. Currently, there is no public market for the notes.

The underwriters expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company, Clearstream, Luxembourg or Euroclear, as the case may be, on or about April 6, 2006 against payment therefor in immediately available funds.

***Joint Bookrunning Managers (Floating Rate Notes)***

| | | |
|---|---|---|
| ***MORGAN STANLEY*** | ***CITIGROUP*** | ***MERRILL LYNCH & CO.*** |
| *(Global Coordinator)* | *(Global Coordinator)* | *(Global Coordinator)* |
| ***BANC OF AMERICA SECURITIES LLC*** | ***UBS INVESTMENT BANK*** | ***WACHOVIA SECURITIES*** |

***Joint Bookrunning Managers (Fixed Rate Notes)***

| | | |
|---|---|---|
| ***MORGAN STANLEY*** | ***CITIGROUP*** | ***MERRILL LYNCH & CO.*** |
| ***GOLDMAN, SACHS & CO.*** | ***JPMORGAN CHASE*** | ***LEHMAN BROTHERS*** |

April 3, 2006

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**Prospectus Supplement**

**ABOUT THIS PROSPECTUS SUPPLEMENT**

You should rely only on information contained in this prospectus supplement and the accompanying base prospectus or information to which we have referred you. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. The information in this prospectus supplement and the accompanying base prospectus may only be accurate as of the date of this prospectus supplement.

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of notes and also adds to and updates information contained in the accompanying base prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying base prospectus. The second part, the accompanying base prospectus, gives more general information, some of which may not apply to this offering. If the description of the offering varies between this prospectus supplement and the accompanying base prospectus, you should rely on the information contained in this prospectus supplement.

Unless otherwise indicated, or the context otherwise requires, references in this prospectus supplement and the accompanying base prospectus to *LNC,* *we,* *us* and *our* or similar terms are to Lincoln National Corporation and its subsidiaries.

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**FORWARD-LOOKING STATEMENTS CAUTIONARY LANGUAGE**

This prospectus supplement and the accompanying base prospectus may contain or incorporate by reference information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, believe, and other words and terms of similar meaning connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results.

Any or all forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining LNC s actual future results. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance, and there are no guarantees about the performance of any securities offered by this prospectus supplement. Actual results could differ materially from those expressed or implied in the forward-looking statements. Among factors that could cause actual results to differ materially are:

- Problems arising with the ability to successfully integrate our and Jefferson-Pilot Corporation s ( Jefferson-Pilot ) businesses, which may affect our ability to operate as effectively and efficiently as expected or to achieve the expected synergies from the merger or to achieve such synergies within our expected timeframe;

- Legislative, regulatory or tax changes, both domestic and foreign, that affect the cost of, or demand for, LNC s products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserves and/or risk-based capital requirements related to secondary guarantees under universal life and variable annuity products such as Actuarial Guideline 38; restrictions on revenue sharing and 12b-1 payments; and the potential for U.S. Federal tax reform;

- The initiation of legal or regulatory proceedings against LNC or its subsidiaries and the outcome of any legal or regulatory proceedings, such as: (a) adverse actions related to present or past business practices common in businesses in which LNC and its subsidiaries compete; (b) adverse decisions in significant actions including, but not limited to, actions brought by federal and state authorities, and extra-contractual and class action damage cases; (c) new decisions that result in changes in law; and (d) unexpected trial court rulings;

- Changes in interest rates causing a reduction of investment income, the margins of LNC s fixed annuity and life insurance businesses and demand for LNC s products;

- A decline in the equity markets causing a reduction in the sales of LNC s products, a reduction of asset fees that LNC charges on various investment and insurance products, an acceleration of amortization of deferred acquisition costs ( DAC ), the value of business acquired ( VOBA ), deferred sales inducements ( DSI ) and deferred front-end loads ( DFEL ) and an increase in liabilities related to guaranteed benefit features of LNC s variable annuity products;

- Ineffectiveness of LNC s various hedging strategies used to offset the impact of declines in the equity markets;

- A deviation in actual experience regarding future persistency, mortality, morbidity, interest rates or equity market returns from LNC s assumptions used in pricing its products, in establishing related insurance reserves, and in the amortization of intangibles that may result in an increase in reserves and a decrease in net income;

- Changes in accounting principles generally accepted in the United States ( GAAP ) that may result in unanticipated changes to LNC s net income;

- Lowering of one or more of LNC s debt ratings issued by nationally recognized statistical rating organizations, and the adverse impact such action may have on LNC s ability to raise capital and on its liquidity and financial condition;

- Lowering of one or more of the insurer financial strength ratings of LNC s insurance subsidiaries, and the adverse impact such action may have on the premium writings, policy retention, and profitability of its insurance subsidiaries;

- Significant credit, accounting, fraud or corporate governance issues that may adversely affect the value of certain investments in the portfolios of LNC s companies requiring that LNC realize losses on such investments;

- The impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including LNC s ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions;

- The adequacy and collectibility of reinsurance that LNC has purchased;

- Acts of terrorism or war that may adversely affect LNC s businesses and the cost and availability of reinsurance;

- Competitive conditions, including pricing pressures, new product offerings and the emergence of new competitors, that may affect the level of premiums and fees that LNC can charge for its products;

- The unknown impact on LNC s business resulting from changes in the demographics of LNC s client base, as aging baby-boomers move from the asset-accumulation stage to the asset-distribution stage of life;

- Loss of key management, portfolio managers in the Investment Management segment, financial planners or wholesalers; and

- Changes in general economic or business conditions, both domestic and foreign, that may be less favorable than expected and may affect foreign exchange rates, premium levels, claims experience, the level of pension benefit costs and funding, and investment results.

The risks included here are not exhaustive. We describe these risks and uncertainties in greater detail under the caption Risk Factors below and in LNC s recent Forms 10-K and 8-K and other documents filed with the Securities and Exchange Commission (the SEC ). Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors.

Further, it is not possible to assess the impact of all risk factors on LNC s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. In addition, we disclaim any current intention to update any forward-looking statements to reflect events or circumstances that occur after the date of this prospectus supplement.

**SUMMARY**

*This summary contains basic information about LNC, LNC s merger with Jefferson-Pilot Corporation ( Jefferson-Pilot ) consummated on April 3, 2006 (the merger ) and this offering. Because it is a summary, it does not contain all of the information that you should consider before investing in the notes. You should read this entire prospectus supplement carefully, including the section entitled Risk Factors, our financial statements and the notes thereto incorporated by reference into this prospectus supplement, and the accompanying base prospectus, before making an investment decision.*

**LNC**

For a detailed description of LNC s business, the latest financial statements of LNC, management s discussion and analysis of LNC s financial condition and results of operations, and other important information concerning LNC, please refer to LNC s Annual Report on Form 10-K for the year ended December 31, 2005 and other documents filed with the SEC, which are incorporated by reference into this prospectus supplement. For more information, see Documents Incorporated by Reference in the accompanying base prospectus.

LNC is a holding company, which operates multiple insurance and investment management businesses as well as a broadcasting and sports programming business through subsidiary companies. LNC was organized under the laws of the state of Indiana in 1968 and maintains its principal executive offices in Philadelphia, Pennsylvania. Lincoln Financial Group is the marketing name for LNC and its subsidiary companies. At December 31, 2005, LNC had consolidated assets of $124.8 billion and consolidated shareholders equity of $6.4 billion. Giving effect to the merger as if it had occurred at December 31, 2005, LNC would have had pro forma consolidated assets of $164.6 billion and pro forma consolidated shareholders equity of $12.0 billion at December 31, 2005.

For the year ended December 31, 2005, we had total revenue of $5.5 billion and net income of $831 million. Giving effect to the merger as if it had occurred at January 1, 2005, LNC would have had pro forma total revenue of $9.6 billion and net income of $1.4 billion for the year ended December 31, 2005.

Our principal executive office is located at Centre Square West Tower, 1500 Market Street, Suite 3900, Philadelphia, Pennsylvania 19102. Our telephone number is (215) 448-1400.

**Recent Developments: Merger with Jefferson-Pilot**

On April 3, 2006, Jefferson-Pilot, a financial services and broadcasting holding company, merged with and into a wholly owned subsidiary of LNC. Jefferson-Pilot, through its subsidiaries, provided products and services in four major businesses: (1) life insurance, (2) annuities and investment products, (3) group life, disability and dental insurance, and (4) broadcasting and sports programming production. At December 31, 2005, Jefferson-Pilot had consolidated assets of $36.1 billion and consolidated shareholders equity of $3.9 billion. For a detailed description of Jefferson-Pilot s business, the latest financial statements of Jefferson-Pilot, and other important information concerning Jefferson-Pilot, please refer to Jefferson-Pilot s Annual Report on Form 10-K for the year ended December 31, 2005, which is incorporated herein by reference.

LNC paid $1.8 billion in cash and expects to issue approximately 112 million shares of LNC common stock to the former holders of Jefferson-Pilot common stock in connection with the merger. LNC financed the cash portion of the merger consideration under a bridge financing facility. All of the net proceeds from this offering will be used to repay a portion of the outstanding debt under the bridge financing facility.

**Overview of LNC after the Merger**

Our individual products and services are distributed primarily through brokers, planners, agents and other intermediaries with sales and marketing support provided by Lincoln Financial Distributors ( LFD ), our wholesaling distribution arm. Our group products and services are distributed primarily through financial advisors, employee benefit brokers, third party administrators, and other employee benefit firms with sales support provided by Lincoln s Employer Markets group and retirement sales specialists. Our retail distribution firm, Lincoln Financial Advisors Corporation ( LFA ), offers LNC and non-proprietary products and advisory services through a national network of financial planners, agents and registered representatives.

As a result of our merger with Jefferson-Pilot, we will provide products and services in five businesses: (1) life insurance, (2) annuities, (3) investment management, (4) group life, disability and dental insurance and (5) media. In addition, beginning in the second quarter of 2006, we will be reporting results through five business segments: (1) Individual Markets, (2) Employer Markets, (3) Investment Management, (4) Lincoln UK and (5) Lincoln Financial Media. The following is a brief description of these segments.

*Individual Markets*. The Individual Markets segment will provide tax-deferred investment growth and lifetime income opportunities for its clients by offering individual fixed, variable, and equity-indexed annuities. The segment will also offer wealth protection and transfer opportunities through both single and survivorship versions of universal life, variable universal life, interest-sensitive whole life, term insurance, as well as a linked-benefit product, which is a universal life insurance policy linked with riders that provide for long-term care costs.

*Employer Markets*. The Employer Markets segment will provide products and services to the employer-sponsored marketplace. The Employer Markets segment will offer group protection, retirement income, and executive benefits solutions. Products will include employer-sponsored variable and fixed annuities, mutual-fund based programs in the 401(k), 403(b), and 457 marketplaces, corporate owned life insurance, as well as group life, disability, and dental insurance.

*Investment Management*. The Investment Management segment, through Delaware Investments, will provide a broad range of managed accounts and portfolios, mutual funds, subadvised funds, and other investment products to individual investors and to institutional investors such as private and public pension funds, foundations, and endowment funds. Delaware Investments is the marketing name for Delaware Management Holdings, Inc. and its subsidiaries.

*Lincoln UK*. Lincoln UK is headquartered in Barnwood, Gloucester, England, and is licensed to do business throughout the United Kingdom. Lincoln UK will primarily focus on protecting and enhancing the value of its existing customer base. The segment accepts new deposits from existing relationships into existing and a limited number of new products. Lincoln UK s product portfolio principally consists of unit-linked life and pension products, which are similar to U.S. produced variable life and annuity products, where the risk associated with the underlying investments is borne by the policyholders.

*Lincoln Financial Media*. The Lincoln Financial Media segment will consist of 18 radio and 3 television broadcasting stations located in selected markets in the Southeastern and Western United States and will also produce syndicated collegiate basketball and football sports programming.

LNC also has an Other Operations category that includes the financial data for the operations of LFA and LFD, and for operations that are not directly related the business segments, unallocated corporate items (such as corporate investment income and interest expense on short-term and long-term borrowings) and the historical results of the former reinsurance segment, which was sold to Swiss Re Life & Health America Inc. ( Swiss Re ) in the fourth quarter of 2001, along with the ongoing amortization of deferred gain on the indemnity reinsurance portion of the transaction with Swiss Re.

**The Offering**

| | |
|---|---|
| Issuer | Lincoln National Corporation |
| Securities | $500,000,000 aggregate principal amount of Floating Rate Senior Notes due 2009, which we refer to as the floating rate notes. |
| | $500,000,000 aggregate principal amount of 6.15% Senior Notes due 2036, which we refer to as the fixed rate notes. |
| | We collectively refer to the floating rate notes and the fixed rate notes as the notes. The notes will be issued in denominations of $2,000 principal amount and integral multiples of $1,000. |
| Aggregate Principal Amount | $1,000,000,000 |
| Maturity Date | The floating rate notes will mature on April 6, 2009 and the fixed rate notes will mature on April 7, 2036. |
| Interest | Interest on the floating rate notes will accrue from the issue date until maturity at a rate per year equal to three-month LIBOR, plus 0.11% calculated on the basis of a 360-day year using the actual number of days elapsed from and including an interest payment date to but not including the next succeeding interest payment date. Interest on the floating rate notes will be reset quarterly. |
| | Interest on the fixed rate notes will accrue from the issue date until maturity at 6.15% per year calculated using a 360-day year comprised of twelve 30-day months. |
| | Interest on the floating rate notes will be paid quarterly on each January 6, April 6, July 6 and October 6 commencing on July 6, 2006. We will pay interest on the fixed rate notes on each April 7 and October 7, commencing October 7, 2006. |
| Use of Proceeds | We anticipate that we will use all of the net proceeds from this offering to repay a portion of the outstanding loan balance under the bridge facility used to finance the cash portion of the merger consideration in connection with the merger of Jefferson-Pilot into a wholly owned subsidiary of LNC. |
| Indenture | We will issue the notes under an indenture between us and The Bank of New York, as indenture trustee. |
| Ranking | The notes will be our senior unsecured debt obligations and will rank equally among themselves and with all of our other present and future senior unsecured indebtedness. |
| | As of December 31, 2005, our consolidated indebtedness aggregated approximately $1.45 billion. After giving pro forma effect to the merger, the expected offering of capital securities and this offering, our outstanding indebtedness would have been approximately $4.89 billion. |

| | |
|---|---|
| | The indenture places no limitation on the amount of additional senior indebtedness that may be incurred by us, which will rank equally to the notes. We expect from time to time to incur additional indebtedness constituting senior indebtedness. |
| Optional Redemption | We may not redeem the floating rate notes prior to their maturity. We may redeem the fixed rate notes in whole or in part prior to their maturity at any time at the redemption price described in Description of the Notes Optional Redemption. |
| Form | The notes will be represented by one or more global securities registered in the name of Cede & Co., as nominee for The Depository Trust Company ( DTC ). Beneficial interests in the notes will be evidenced by, and transfers thereof will be effected only through, records maintained by the participants in DTC. |
| Trustee and Principal Paying Agent | The Bank of New York |
| Delivery and Clearance | We will deposit the global securities representing the notes with DTC in New York. You may hold an interest in the notes through DTC, Clearstream, Luxembourg or Euroclear Bank, as operator of the Euroclear System, directly as a participant of any such system or indirectly through organizations that are participants in such systems. |
| Governing Law | New York |
| Expected Offering | We expect in the near future to offer $1.3 billion aggregate principal amount of our junior subordinated debentures (the capital securities ). |

**RISK FACTORS**

You should carefully consider the risks described below before investing in our notes. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business, financial condition and results of operations could be materially affected. In that case, the value of the notes could decline substantially. For additional risks concerning our merger with Jefferson-Pilot consummated on April 3, 2006, see Amendment No. 1 to our Form S-4 (Registration No. 333-130226).

***Risk Factors in Connection With the Ownership of the Notes***

**We operate through our subsidiaries and, as a result, the notes will effectively be subordinated to the liabilities of our subsidiaries.**

Because we operate primarily through our insurance subsidiaries and our primary assets are our equity interests in those subsidiaries, our obligations, including the notes, are effectively subordinated to all existing and future indebtedness and other liabilities, including insurance policy-related liabilities, of our subsidiaries. As of December 31, 2005, our subsidiaries had approximately $117 billion of outstanding liabilities that effectively ranks and would rank senior to our current and future senior debt securities, unless the senior debt securities are guaranteed on a senior basis by these subsidiaries. Our subsidiaries may incur further indebtedness in the future. The notes are exclusively obligations of Lincoln National Corporation. Our subsidiaries have no obligation to pay any amounts due on the notes. Our subsidiaries are not required to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. In addition, any payment of dividends, distributions, loans or advances by our subsidiaries to us could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries earnings and business considerations. The notes are unsecured.

**We and our subsidiaries may incur additional indebtedness that may adversely affect our ability to meet our financial obligations under the notes.**

The terms of the indenture and the notes do not limit the incurrence by us or our subsidiaries of indebtedness. We and our subsidiaries may incur additional indebtedness in the future, which could have important consequences to holders of the notes. For example, we may have insufficient cash to meet our financial obligations, including our obligations under the notes. Furthermore, our ability to obtain additional financing for working capital, capital expenditures or general corporate purposes could be impaired. Additional debt could make us more vulnerable to changes in general economic conditions and also could affect the financial strength ratings of our insurance subsidiaries and the ratings of our notes.

**We may be unable to repay the notes if our subsidiaries are unable to pay dividends or make advances to us.**

At maturity, the entire outstanding principal amount of the notes will become due and payable by us. We may not have sufficient funds to pay the principal amount due. If we do not have sufficient funds on hand or available through existing borrowing facilities or through the declaration and payment of dividends by our subsidiaries, we will need to seek additional financing. Additional financing may not be available to us in the amounts necessary. We, as a holding company, are dependent upon dividends from our subsidiaries to enable us to service our outstanding debt, including the notes. See Risk Factors in Connection With Our Business Because we are a holding company with no direct operations, the inability of our subsidiaries to pay dividends to us in sufficient amounts would harm our ability to meet our obligations.

**A downgrade, suspension or withdrawal of the rating assigned by a rating agency to the notes, if any, could cause the liquidity or market value of the notes to decline significantly.**

The notes will be rated by Standard & Poor s, Moody s Investors Service and A.M. Best. There can be no assurance that these ratings will remain for any given period of time or that these ratings will not be lowered or withdrawn entirely by a rating agency if in that rating agency s judgment future circumstances relating to the basis of the rating, such as adverse changes in our company, so warrant. For more information about our ratings, see Risk Factors in Connection With Our Business A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors.

**We have made only limited covenants in the indenture, which may not protect your investment if we experience significant adverse changes in our financial condition or results of operations.**

The indenture governing the notes does not:

- require us to maintain any financial ratios or specified levels of net worth, revenues, income, cash flow or liquidity, and therefore, does not protect holders of the notes in the event that we experience significant adverse changes in our financial condition, results of operations or liquidity;

- limit our ability or the ability of any of our subsidiaries to incur additional indebtedness, including indebtedness that is equal in right of payment to the notes or, subject to certain exceptions, indebtedness that is secured by liens on our assets or assets of our subsidiaries; or

- limit the aggregate principal amount of senior debt securities that may be issued.

***Risk Factors in Connection With Our Business***

**Our reserves for future policy benefits and claims related to our current and future business as well as businesses we may acquire in the future may prove to be inadequate.**

Our reserves for future policy benefits and claims may prove to be inadequate. We establish and carry, as a liability, reserves based on estimates of how much we will need to pay for future benefits and claims. For our insurance and annuity products, we calculate these reserves based on many assumptions and estimates, including estimated premiums we will receive over the assumed life of the policy, the timing of the event covered by the insurance policy, the amount of benefits or claims to be paid and the investment returns on the assets we purchase with the premiums we receive. The assumptions and estimates we use in connection with establishing and carrying our reserves are inherently uncertain. Accordingly, we cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the policy liabilities will grow to the level we assume prior to payment of benefits or claims. If our actual experience is different from our assumptions or estimates, our reserves may prove to be inadequate in relation to our estimated future benefits and claims. As a result, we would incur a charge to our earnings in the quarter in which we increase our reserves.

**Because the equity markets and interest rates impact our profitability, changes in equity markets and interest rates may also negatively affect our business and profitability.**

The fee revenue that we earn on equity-based variable annuities, unit-linked accounts, variable universal life insurance policies and investment advisory business, is based upon account values. Because strong equity markets result in higher account values, strong equity markets positively affect our net income through increased fee revenue. In addition, the increased fee revenue resulting from strong equity markets increases the expected gross profits ( EGPs ) from variable insurance products. As a result, the higher EGPs may result in lower net amortized costs related to DAC, DSI, VOBA, and DFEL associated with those products. For more information on DAC, DSI, VOBA (previously referred to as the present value of in-force business ( PVIF )) and DFEL amortization, see Critical Accounting Policies in the Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2005. Finally, the amount of reserves related to the guaranteed minimum death benefits ( GMDB ) for variable annuities is tied to the difference between the value of the underlying accounts and the guaranteed death benefit, which is a benefit ratio (present value of total expected GMDB payments over the life of the contract divided by the present value of total expected assessments over the life of the contract). Both the level of expected GMDB payments and expected total assessments used in calculating this benefit ratio are affected by the equity markets. Accordingly, strong equity markets will decrease the amount of GMDB reserves that we must carry.

Conversely, a weakening of the equity markets results in lower fee income and, depending upon the significance of the drop in the equity markets, may result in higher net expenses associated with DAC, DSI, VOBA and DFEL. Both lower fee income and higher net expenses may have a material adverse effect on our results of operations and capital resources. Furthermore, a decrease in the equity markets will increase the net amount at risk under the GMDB benefits we offer as part of our variable annuity products, which has the effect of increasing the amount of GMDB reserves that we must carry. As a result, if such reserves are not reasonable in relation to our expected liabilities for GMDB, we may have to would likely result in an increase GMDB payments and would result in a decrease in the present value of total expected assessments over the life of the contract. The result would be an increase the level of the GMDB reserves. Such an increase in reserves would result in and a charge to our earnings in the quarter in which we increase our reserves to bring them within a reasonable range of our estimated future liabilities related to the GMDB guarantees.

Because the profitability of our fixed annuity and interest-sensitive whole life, universal life and fixed portion of variable universal life insurance business depends in part on interest rate spreads, interest rate fluctuations could negatively affect our profitability. Jefferson-Pilot also offers products the profitability of which depends in part on interest rate spreads. Accordingly, our merger with Jefferson-Pilot may exacerbate this risk.

Changes in interest rates may reduce both our profitability from spread businesses and our return on invested capital. Some of our products, principally fixed annuities and interest-sensitive whole life, universal life and the fixed portion of variable universal life insurance, expose us to the risk that changes in interest rates will reduce our spread, or the difference between the amounts that we are required to pay under the contracts and the amounts we are able to earn on our general account investments intended to support our obligations under the contracts. Declines in our spread from these products could have a material adverse effect on our businesses or results of operations.

In periods of increasing interest rates, we may not be able to replace the assets in our general account with higher yielding assets needed to fund the higher crediting rates necessary to keep our interest sensitive products competitive. We therefore may have to accept a lower spread and thus lower profitability or face a decline in sales and greater loss of existing contracts and related assets. In periods of declining interest rates, we have to reinvest the cash we receive as interest or return of principal on our investments in lower yielding instruments then available. Moreover, borrowers may prepay fixed-income securities, commercial mortgages and mortgage-backed securities in our general account in order to borrow at lower market rates, which exacerbates this risk. Because we are entitled to reset the interest rates on our fixed rate annuities only at limited, pre-established intervals, and since many of our policies have guaranteed minimum interest or crediting rates, our spreads could decrease and potentially become negative.

Increases in interest rates may cause increased surrenders and withdrawals of insurance products. In periods of increasing interest rates, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase as policyholders seek to buy products with perceived higher returns.

This process may lead to a flow of cash out of our businesses. These outflows may require investment assets to be sold at a time when the prices of those assets are lower because of the increase in market interest rates, which may result in realized investment losses. A sudden demand among consumers to change product types or withdraw funds could lead us to sell assets at a loss to meet the demand for funds. In addition, unanticipated withdrawals and terminations also may require us to accelerate DAC, DSI, VOBA and DFEL amortization. This would increase our current expenses.

**A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors.**

Nationally recognized rating agencies rate the financial strength of our principal insurance subsidiaries and rate our debt. Ratings are not recommendations to buy our securities. Please see Ratings beginning on page 17 of our Annual Report on Form 10-K for the year ended December 31, 2005 for a complete description of our ratings.

Our financial strength ratings, which are intended to measure our ability to meet policyholder obligations, are an important factor affecting public confidence in most of our products and, as a result, our competitiveness. The interest rates we pay on our borrowings are largely dependent on our credit ratings. Each of the rating agencies reviews its ratings periodically, and our current ratings may not be maintained in the future. A downgrade of the financial strength rating of one of our principal insurance subsidiaries could affect our competitive position in the insurance industry and make it more difficult for us to market our products as potential customers may select companies with higher financial strength ratings. This could lead to a decrease in fees as outflows of assets increase, and therefore, result in lower fee income. Furthermore, sales of assets to meet customer withdrawal demands could also result in losses, depending on market conditions. A downgrade of our debt ratings could affect our ability to raise additional debt with terms and conditions similar to our current debt, and accordingly, likely increase our cost of capital. In addition, a downgrade of these ratings could make it more difficult to raise capital to refinance any maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the current financial strength ratings of our principal insurance subsidiaries described above.

**A drop in the rankings of the mutual funds that we manage as well as a loss of key portfolio managers could result in lower advisory fees.**

While mutual funds are not rated, per se, many industry periodicals and services, such as Lipper, provide rankings of mutual fund performance. These rankings often have an impact on the decisions of customers regarding which mutual funds to invest in. If the rankings of the mutual funds for which we provide advisory services decrease materially, the funds assets may decrease as customers leave for funds with higher performance rankings. Similarly, a loss of our key portfolio managers who manage mutual fund investments could result in poorer fund performance, as well as customers leaving these mutual funds for new mutual funds managed by the portfolio managers. Any loss of fund assets would decrease the advisory fees that we earn from such mutual funds, which are generally tied to the amount of fund assets and performance. This would have an adverse effect on our results of operations.

**Our businesses are heavily regulated and changes in regulation may reduce our profitability.**

Our insurance subsidiaries are subject to extensive supervision and regulation in the states in which we do business. The supervision and regulation relate to numerous aspects of our business and financial condition. The primary purpose of the supervision and regulation is the protection of our insurance policyholders, and not our investors. The extent of regulation varies, but generally is governed by state statutes. These statutes delegate regulatory, supervisory and administrative authority to state insurance departments. This system of supervision and regulation covers, among other things:

- standards of minimum capital requirements and solvency, including risk-based capital measurements;
- restrictions of certain transactions between our insurance subsidiaries and their affiliates;
- restrictions on the nature, quality and concentration of investments;
- restrictions on the types of terms and conditions that we can include in the insurance policies offered by our primary insurance operations;
- limitations on the amount of dividends that insurance subsidiaries can pay;
- the existence and licensing status of the company under circumstances where it is not writing new or renewal business;
- certain required methods of accounting;
- reserves for unearned premiums, losses and other purposes; and
- assignment of residual market business and potential assessments for the provision of funds necessary for the settlement of covered claims under certain policies provided by impaired, insolvent or failed insurance companies.

The regulations of the state insurance departments may affect the cost or demand for our products and may impede us from taking actions we might wish to take to increase our profitability. For example, in July 2005, a committee of the NAIC adopted a change to Actuarial Guideline 38 (also known as AXXX ), the statutory reserve requirements for universal life ( UL ) products with secondary guarantees, such as Lincoln National Life Insurance Company s Lapse Protection Rider product. This proposal was formally adopted by the NAIC in 2005 with an effective date of July 1, 2005.

The proposal does not affect business written prior to the effective date of July 1, 2005. We continue to evaluate potential modifications to our universal life products with secondary guarantees that may be made in response to the revised regulation. Although the impact of this proposal on future sales of guaranteed no-lapse UL cannot be predicted, it may result in a price increase for such products, and therefore, may lower sales of such products.

Further, we may be unable to maintain all required licenses and approvals and our business may not fully comply with the wide variety of applicable laws and regulations or the relevant authority s interpretation of the laws and regulations, which may change from time to time. Also, regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or impose substantial fines. Further, insurance regulatory authorities have relatively broad discretion to issue orders of supervision, which permit such authorities to supervise the business and operations of an insurance company. As of December 31, 2005, no state insurance regulatory authority had imposed on us any substantial fines or revoked or suspended any of our licenses to conduct insurance business in any state or issued an order of supervision with respect to our insurance subsidiaries, which would have a material adverse effect on our results of operations or financial condition.

In addition, LFA and LFD, as well as our variable annuities and variable life insurance products, are subject to regulation and supervision by the SEC and the National Association of Securities Dealers ( NASD ). Our Investment Management segment, like other investment management groups, is subject to regulation and supervision by the SEC, NASD, the Municipal Securities Rulemaking Board, the Pennsylvania Department of Banking and jurisdictions of the states, territories and foreign countries in which they are licensed to do business. Lincoln UK is subject to regulation by the Financial Services Authority in the U.K. These laws and regulations generally grant supervisory agencies and self-regulatory organizations broad administrative powers, including the power to limit or restrict the subsidiaries from carrying on their businesses in the event that they fail to comply with such laws and regulations.

Many of the foregoing regulatory or governmental bodies have the authority to review our products and business practices and those of our agents and employees. In recent years, there has been increased scrutiny of our businesses by these bodies, which has included more extensive examinations, regular sweep inquiries and more detailed review of disclosure documents. These regulatory or governmental bodies may bring regulatory or other legal actions against us if, in their view, our practices, or those of our agents or employees, are improper. These actions can result in substantial fines, penalties or prohibitions or restrictions on our business activities and could have a material adverse effect on our business, results of operations or financial condition.

For further information on regulatory matters relating to us, see Regulatory beginning on page 19 of our Annual Report on Form 10-K for the year ended December 31, 2005.

**Legal and regulatory actions are inherent in our businesses and could result in financial losses or harm our businesses.**

There continues to be a significant amount of federal and state regulatory activity in the industry relating to numerous issues including, but not limited to, market timing and late trading of mutual fund and variable insurance products and broker-dealer access arrangements. Like others in the industry, we have received inquiries including requests for information and/or subpoenas from various authorities including the SEC, NASD and the New York Attorney General, as well as notices of potential proceedings from the SEC and NASD. We are in the process of responding to, and in some cases have settled or are in the process of settling, certain of these inquiries and potential proceedings. We continue to cooperate fully with such authorities. In addition, we are, and in the future may be, subject to legal actions in the ordinary course of our insurance and investment management operations, both domestically and internationally. Pending legal actions include proceedings relating to aspects of our businesses and operations that are specific to us and proceedings that are typical of the businesses in which we operate. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. Substantial legal liability in these or future legal or regulatory actions could have a material financial effect or cause significant harm to our reputation, which in turn could materially harm our business prospects.

**Changes in U.S. federal income tax law could make some of our products less attractive to consumers and increase our tax costs.**

The Economic Growth and Tax Relief Reconciliation Act of 2001 ( EGTRRA ) as well as the Jobs and Growth Tax Relief Reconciliation Act of 2003 contain provisions that will, over time, significantly lower individual tax rates. This will have the effect of reducing the benefits of deferral on the build-up of value of annuities and life insurance products. EGTRRA also includes provisions that will eliminate, over time, the estate, gift and generation-skipping taxes and partially eliminate the step-up in basis rule applicable to property held in a decedent s estate. Many of these provisions expire in 2008 and 2010, unless extended. The Bush Administration continues to propose that many of the foregoing rate reductions be made permanent, as well as several tax-favored savings initiatives, such as the elimination of the estate tax, that, if enacted by Congress, could also adversely affect the sale of our annuity, life and tax-qualified retirement products and increase the surrender of such products. Although we cannot predict the overall effect on the sales of our products of the tax law changes included in these Acts, some of these changes might hinder our sales and result in the increased surrender of insurance products.

**Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk, which could negatively affect our businesses or result in losses.**

We have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our policies and procedures to identify, monitor and manage risks may not be fully effective. Many of our methods of managing risk and exposures are based upon our use of observed historical market behavior or statistics based on historical models. As a result, these methods may not predict future exposures, which could be significantly greater than the historical measures indicate, such as the risk of pandemics causing a large number of deaths. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that is publicly available or otherwise accessible to us, which may not always be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

**Because we are a holding company with no direct operations, the inability of our subsidiaries to pay dividends to us in sufficient amounts would harm our ability to meet our obligations.**

We are a holding company, and we have no direct operations. Our principal asset is the capital stock of our insurance, investment management and communication company subsidiaries.

Our ability to meet our obligations for payment of interest and principal on outstanding debt obligations and to pay dividends to shareholders and corporate expenses depends upon the surplus and earnings of our subsidiaries and the ability of our subsidiaries to pay dividends or to advance or repay funds to us. Payments of dividends and advances or repayment of funds to us by our insurance subsidiaries are restricted by the applicable laws of their respective jurisdictions, including laws establishing minimum solvency and liquidity thresholds. Changes in these laws can constrain the ability of our subsidiaries to pay dividends or to advance or repay funds to us in sufficient amounts and at times necessary to meet our debt obligations and corporate expenses.

**We face a risk of non-collectibility of reinsurance, which could materially affect our results of operations.**

We follow the insurance practice of reinsuring with other insurance and reinsurance companies a portion of the risks under the policies written by our insurance subsidiaries (known as ceding). At the end of 2005, we have ceded approximately $320.1 billion on a pro forma basis of life insurance in-force to reinsurers for reinsurance protection. Although reinsurance does not discharge our subsidiaries from their primary obligation to pay policyholders for losses insured under the policies we issue, reinsurance does make the assuming reinsurer liable to the insurance subsidiaries for the reinsured portion of the risk. As of December 31, 2005, we had $8.1 billion on a pro forma basis of reinsurance receivables from reinsurers for paid and unpaid losses, for which they are obligated to reimburse us under our reinsurance contracts. Of this amount, $4.1 billion relates to the sale of our reinsurance business to Swiss Re in 2001 through an indemnity reinsurance agreement. During 2004, Swiss Re funded a trust to support this business. The balance in the trust changes as a result of ongoing reinsurance activity and was $1.7 billion at December 31,

2005. In addition, should Swiss Re s financial strength ratings drop below either S&P AA- or AM Best A or their NAIC risk-based capital ratio fall below 250%, assets equal to the reserves supporting business reinsured must be placed into a trust according to pre-established asset quality guidelines. Furthermore, approximately $2.0 billion of the Swiss Re treaties are funds-withheld structures where we have a right of offset on assets backing the reinsurance receivables. The balance of the reinsurance is due from a diverse group of reinsurers. The collectibility of reinsurance is largely a function of the solvency of the individual reinsurers. We perform annual credit reviews on our reinsurers, focusing on, among other things, financial capacity, stability, trends and commitment to the reinsurance business. We also require assets in trust, letters of credit or other acceptable collateral to support balances due from reinsurers not authorized to transact business in the applicable jurisdictions. Despite these measures, a reinsurer s insolvency, inability or unwillingness to make payments under the terms of a reinsurance contract, especially Swiss Re, could have a material adverse effect on our results of operations and financial condition.

**Significant adverse mortality experience may result in the loss of, or higher prices for, reinsurance.**

We reinsure a significant amount of the mortality risk on fully underwritten newly issued life insurance contracts. We regularly review retention limits for continued appropriateness and they may be changed in the future. If we were to experience adverse mortality experience, a significant portion of that would be reimbursed by our reinsurers. Prolonged or severe adverse mortality experience could result in increased reinsurance costs and ultimately, reinsurers not willing to offer coverage. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient, we would either have to be willing to accept an increase in our net exposures or revise our pricing to reflect higher reinsurance premiums. If this were to occur, we may be exposed to reduced profitability and cash flow strain or we may not be able to price new business at competitive rates.

**We may be unable to attract and retain sales representatives and other employees, particularly financial advisors.**

We compete to attract and retain financial advisors, portfolio managers and other employees, as well as independent distributors of our products. Intense competition exists for persons and independent distributors with demonstrated ability. We compete with other financial institutions primarily on the basis of our products, compensation, support services and financial position. Sales in our businesses and our results of operations and financial condition could be materially adversely affected if we are unsuccessful in attracting and retaining financial advisors, portfolio managers and other employees, as well as independent distributors of our products. For example, in 2005, we changed the compensation structure for LFA s financial advisors. Although we believe the new compensation structure will benefit us, our policyholders and our planners, if a significant number of financial advisors terminate their affiliation with us, it could have a negative impact on our sales and ability to retain existing in-force business. During 2005, the number of new planners recruited to LFA was down relative to prior years, which is partially a result of LFA focusing more on recruiting experienced planners than in it had in prior years.

**Our sales representatives are not captive and may sell products of our competitors.**

We sell our annuity and life insurance products through independent sales representatives. These representatives are not captive, which means they may also sell our competitors products. If our competitors offer products that are more attractive than ours, or pay higher commission rates to the sales representatives than we do, these representatives may concentrate their efforts in selling our competitors products instead of ours.

**Intense competition could negatively affect our ability to maintain or increase our profitability.**

Our businesses are intensely competitive. We compete based on a number of factors including name recognition, service, the quality of investment advice, investment performance, product features, price, perceived financial strength, and claims-paying and credit ratings. Our competitors include insurers, broker-dealers, financial advisors, asset managers and other financial institutions. A number of our business units face competitors that have greater market share, offer a broader range of products or have higher financial strength or credit ratings than we do.

In recent years, there has been substantial consolidation and convergence among companies in the financial services industry resulting in increased competition from large, well-capitalized financial services firms. Many of these firms also have been able to increase their distribution systems through mergers or contractual arrangements. Furthermore, larger competitors may have lower operating costs and an ability to absorb greater risk while maintaining their financial strength ratings, thereby allowing them to price their products more competitively. We expect consolidation to continue and perhaps accelerate in the future, thereby increasing competitive pressure on us.

**Losses due to defaults by others could reduce our profitability or negatively affect the value of our investments.**

Third parties that owe us money, securities or other assets may not pay or perform their obligations. These parties include the issuers whose securities we hold, borrowers under the mortgage loans we make, customers, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers and other financial intermediaries. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure, corporate governance issues or other reasons. A downturn in the United States and other economies could result in increased impairments.

**Our communications business faces a variety of risks that could adversely affect its results.**

Our communications business relies on advertising revenues, and therefore is sensitive to cyclical changes in both the general economy and in the economic strength of local markets. Also, our stations derived 21.4%, 21.4% and 23.5% of their 2005, 2004 and 2003 advertising revenues from the automotive industry. If automobile advertising is severely curtailed, it could have a negative impact on broadcasting revenues.

For 2005, 7.1% of television revenues came from a network agreement with two CBS-affiliated stations that expires in 2011. The trend in the industry is away from the networks compensating affiliates for carrying their programming and there is a possibility those revenues will be eliminated when the contract is renewed.

Technological media changes, such as satellite radio and the Internet, and consolidation in the broadcast and advertising industries, may increase competition for audiences and advertisers.

Our communications business has commitments for purchases of syndicated television programming and commitments for other contracts and future sports programming rights, payable through 2011. These commitments are not reflected as an asset or liability in our balance sheet because the programs are not currently available for use. If sports programming advertising revenue decreases in the future, the commitments may have a material adverse effect on the financial position and earnings of the segment.

***Risk Factors in Connection with the Jefferson-Pilot Merger***

**The merger with Jefferson-Pilot may cause disruptions in our business, which could have an adverse effect on our business and financial results.**

The merger may cause disruptions in our business. Specifically:

- current employees and agents may experience uncertainty about their future roles with the new company, which might adversely affect our ability to retain key managers and other employees and agents; and

- the attention of our management may be directed toward the recently completed merger and not their ongoing business.

**The anticipated benefits of combining Jefferson-Pilot and us may not be realized.**

We merged with Jefferson-Pilot with the expectation that the merger would result in various benefits including, among other things, benefits relating to enhanced revenues, a strengthened market position for the resulting company in its businesses, cross-selling opportunities, cost savings and operating efficiencies. Achieving the anticipated benefits of the merger is subject to a number of uncertainties, including whether we and Jefferson-Pilot are integrated in an efficient and effective manner, and general competitive factors in the marketplace. Failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of expected revenues and diversion of management s time and energy and could materially impact the resulting company s business, financial condition and operating results.

**We may have difficulty integrating Jefferson-Pilot and may incur substantial costs in connection with the integration.**

We may experience material unanticipated difficulties or expenses in connection with integrating Jefferson-Pilot, especially given the relatively large size of the merger. Integrating Jefferson-Pilot with us will be a complex, time-consuming and expensive process. Before the merger, we and Jefferson-Pilot operated independently, each with its own business, products, customers, employees, culture and systems.

We may face substantial difficulties, costs and delays in integrating Jefferson-Pilot. These factors may include:

- perceived adverse changes in product offerings available to clients or client service standards, whether or not these changes do, in fact, occur;

- conditions imposed by regulators in connection with their decisions whether to approve the merger;

- potential charges to earnings resulting from the application of purchase accounting to the transaction;

- the retention of existing clients, key portfolio managers, sales representatives and wholesalers of each company; and

- retaining and integrating management and other key employees of the resulting company.

We may seek to combine certain operations and functions using common information and communication systems, operating procedures, financial controls and human resource practices, including training, professional development and benefit programs. We may be unsuccessful or delayed in implementing the integration of these systems and processes.

Any one or all of these factors may cause increased operating costs, worse than anticipated financial performance or the loss of clients, employees and agents. Many of these factors are outside our control.

**USE OF PROCEEDS**

We estimate that, after deducting expenses and underwriting discounts and commissions, our net proceeds from this offering will be approximately $989,955,000. We anticipate that we will use all of the net proceeds from this offering to repay a portion of the outstanding loan balance of $1.8 billion under the bridge facility used to finance the cash portion of the merger consideration in connection with the merger of Jefferson-Pilot into a wholly owned subsidiary of LNC. The interest rate on our outstanding indebtedness under the bridge facility is LIBOR plus 0.23%, and we are required to pay certain fees, including a facility fee of 0.02% of the aggregate commitment. The bridge facility expires on December 22, 2006.

**CAPITALIZATION**

The following table sets forth our consolidated capitalization as of December 31, 2005 and includes adjustments resulting from the merger, this offering and expected offering of capital securities. The Actual column reflects our capitalization as of December 31, 2005 on a historical basis, without any adjustments to reflect subsequent or anticipated events. The Adjusted for Securities Being Offered column reflects the issuance of the senior notes in this offering and the application of the net proceeds therefrom as described in Use of Proceeds. The Adjusted for the Merger and Related Financing column reflects pro forma adjustments to reflect consummation of the merger as of December 31, 2005 and related financings. The following data is qualified in its entirety by, and should be read in conjunction with, our consolidated financial statements and notes thereto incorporated in this prospectus supplement and the accompanying base prospectus by reference.

| | December 31, 2005 (In millions) | | |
|---|---|---|---|
| | **Actual** | **Adjusted for Securities Being Offered(1)** | **Adjusted for the Merger and Related Financing(2)** |
| Short-term debt: | | | |
| Commercial paper | $ 120 | $ 120 | $ 120 |
| Jefferson-Pilot | | | 260 |
| Total short-term debt | 120 | 120 | 380 |
| Long-term debt less current portion: | | | |
| 5.25% notes, due 2007 | 250 | 250 | 250 |
| 6.5% notes, due 2008 | 100 | 100 | 100 |
| 6.20% notes, due 2011 | 250 | 250 | 250 |
| 4.75% notes, due 2014 | 199 | 199 | 199 |
| 7% notes, due 2018 | 200 | 200 | 200 |
| Jefferson-Pilot securities | | | |
| 4.75% notes, due 2014 | | | 300 |
| Floating rate, Extendible Liquidity Securities | | | 300 |
| Notes offered | | 1,000 | 1,000 |
| Total long-term debt | 999 | 1,999 | 2,599 |
| Junior subordinated debentures issued to affiliated trusts: | | | |
| 7.65% due 2050 | 179 | 179 | 179 |
| 6.75% due 2052 | 155 | 155 | 155 |
| Jefferson-Pilot securities | | | |
| 8.14% due 2046 | | | 206 |
| 8.285% due 2046 | | | 103 |
| Total | 334 | 334 | 643 |
| Capital securities to be offered | | | 1,300 |
| Elimination of debt securities held by one company and issued by the other company | | | (30 ) |
| Total Debt | $ 1,453 | $ 2,453 | $ 4,892 |
| Shareholders Equity: | | | |
| Series A preferred stock | $ 1 | $ 1 | $ 1 |
| Common stock and additional paid-in capital | 1,775 | 1,775 | 6,874 |
| Retained earnings | 4,081 | 4,081 | 4,081 |
| Accumulated other comprehensive income | 528 | 528 | 528 |
| Total Shareholders Equity | $ 6,385 | $ 6,385 | $ 11,484 |
| Total Capitalization | $ 7,838 | $ 8,838 | $ 16,376 |

(1) Adjusted to include the senior notes being offered hereby.

(2) Adjusted to include the debt of Jefferson-Pilot Corporation acquired by LNC as a result of the completion of its merger with Jefferson-Pilot on April 3, 2006, the value assigned to LNC stock issued to Jefferson-Pilot shareholders and to outstanding Jefferson-Pilot stock options and the retirement of $500 million of LNC common stock through an accelerated stock repurchase program as discussed in the unaudited condensed pro forma financial statements, and to reflect the senior notes being offered hereby and the anticipated further offering of $1.3 billion of capital securities.

**SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF LNC**

The following table presents our selected historical consolidated financial data at December 31, 2005, 2004, 2003, 2002 and 2001. The selected financial data is derived from our audited financial statements for those years. The following data should be read in conjunction with the financial statements and the related notes thereto and the pro forma financial information incorporated by reference in this prospectus supplement and the accompanying base prospectus.

| | Year Ended December 31, (In Millions, Except Per Share Information) 2005 | 2004 | 2003 | 2002 | 2001(1) |
|---|---|---|---|---|---|
| **Consolidated Summaries of Income** | | | | | |
| Total revenue | $ 5,487.9 | $ 5,371.3 | $ 5,283.9 | $ 4,635.5 | $ 6,378.0 |
| Income before cumulative effect of accounting changes | $ 831.1 | $ 731.5 | $ 767.1 | $ 48.8 | $ 561.2 |
| Cumulative Effect of Accounting Changes | | (24.5 ) | (255.2 ) | | (15.6 ) |
| Net income | $ 831.1 | $ 707.0 | $ 511.9 | $ 48.8 | $ 545.6 |
| **Per Common Share Data(2)** | | | | | |
| Net Income-Basic | $ 4.80 | $ 4.01 | $ 2.89 | $ 0.27 | $ 2.89 |
| Net Income-Diluted | 4.72 | 3.95 | 2.85 | 0.26 | 2.85 |
| Common stock dividends | 1.475 | 1.415 | 1.355 | 1.295 | 1.235 |

| | At December 31, 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **Consolidated Period-End Balance Sheet Items** | | | | | |
| Assets | $ 124,787.6 | $ 116,219.3 | $ 106,744.9 | $ 93,184.6 | $ 98,041.6 |
| Long-term debt | 999.0 | 1,048.6 | 1,117.5 | 1,119.2 | 861.8 |
| Junior subordinated debentures issued to affiliated trusts | 334.0 | 339.8 | 341.3 | 392.7 | 474.7 |
| Shareholders equity | 6,384.4 | 6,175.6 | 5,811.6 | 5,347.5 | 5,303.8 |
| **Period-End Per Common Share Data(2)** | | | | | |
| Shareholders equity (including accumulated other comprehensive income) | $ 36.69 | $ 35.53 | $ 32.56 | $ 30.10 | $ 28.32 |
| Shareholders equity (excluding accumulated other comprehensive income) | 33.66 | 30.17 | 27.69 | 25.97 | 27.39 |
| Market value of common stock | 53.03 | 46.68 | 40.37 | 31.58 | 48.57 |

(1) As discussed in Note 12 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005, LNC sold its reinsurance operations for approximately $2.0 billion on December 7, 2001. Revenues for 2001 include $1.7 billion from the reinsurance operations.

(2) Per share amounts were affected by the retirement of 2,331,000, 7,611,910, 12,088,100 and 11,278,022 shares of common stock in 2005, 2004, 2002 and 2001, respectively. In addition, 4,630,318 shares of common stock were issued in 2001 related to the settlement of purchase contracts issued in conjunction with FELINE PRIDES financing.

**SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF JEFFERSON-PILOT**

The following table presents Jefferson-Pilot s selected consolidated historical financial data at December 31, 2005, 2004, 2003, 2002 and 2001. The selected financial data is derived from Jefferson-Pilot s audited financial statements for those years. The following data should be read in conjunction with the financial statements and the related notes thereto and the pro forma financial information incorporated by reference in this prospectus supplement and the accompanying base prospectus.

| | Years ended December 31, (In Millions, Except Per Share Information) | | | | |
|---|---|---|---|---|---|
| | **2005** | **2004** | **2003** | **2002** | **2001** |
| **Consolidated Summaries of Income** | | | | | |
| Total revenue | $ 4,219.7 | $ 4,102.1 | $ 3,572.9 | $ 3,406.0 | $ 3,322.0 |
| Income before cumulative effect of accounting changes | 578.6 | 562.7 | 491.6 | 450.2 | 511.3 |
| Cumulative effect of accounting changes | | (16.6) | | | 1.5 |
| Net Income | $ 578.6 | $ 546.1 | $ 491.6 | $ 450.2 | $ 512.8 |
| **Per Common Share Data** | | | | | |
| Net Income-Basic | $ 4.28 | $ 3.96 | $ 3.47 | $ 3.07 | $ 3.38 |
| Net Income-Diluted | 4.25 | 3.92 | 3.44 | 3.04 | 3.34 |
| Common stock dividends | 1.64 | 1.47 | 1.29 | 1.18 | 1.09 |
| **Consolidated Period-End Balance Sheet Items** | | | | | |
| Assets | $ 36,078.3 | $ 35,104.8 | $ 32,696.3 | $ 30,618.9 | $ 29,005.0 |
| Long-term debt | 599.7 | 599.6 | | | |
| Junior subordinated debentures issued to affiliated trusts | 309.3 | 309.3 | 309.3 | 309.3 | |
| Shareholders equity | 3,916.9 | 3,933.9 | 3,805.9 | 3,540.0 | 3,390.9 |
| **Period-End Per Common Share Data** | | | | | |
| Shareholders equity (including accumulated other comprehensive income) | $ 29.15 | $ 28.75 | $ 27.07 | $ 24.79 | $ 22.61 |
| Shareholders equity (excluding accumulated other comprehensive income) | 25.89 | 23.76 | 22.21 | 20.52 | 19.84 |
| Market value of common stock | 56.93 | 51.96 | 50.65 | 38.11 | 46.27 |

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**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

On April 3, 2006, LNC and Jefferson-Pilot consummated the merger. The Jefferson-Pilot historical consolidated financial statements for the year ended December 31, 2005 contained in Jefferson-Pilot s Annual Report on Form 10-K for the year ended December 31, 2005, which is incorporated herein by reference.

The following unaudited pro forma condensed combined financial statements of LNC give effect to the merger as if it had been completed as of January 1, 2005 with respect to the pro forma results of operations data, and as of December 31, 2005 with respect to the pro forma balance sheet data. The unaudited pro forma condensed combined financial information also gives effect to the initial funding of the cash portion of the merger consideration through a bridge financing facility and the issuance of the portion of the capital securities and senior notes that we expect to issue to repay all of the outstanding debt under the bridge financing facility as if they occurred on or as of the dates indicated. We have adjusted the historical consolidated financial statements to give effect to pro forma events that are (1) directly attributable to the merger, (2) factually supportable, and (3) with respect to the statements of income, expected to have a continuing impact on the combined results.

The unaudited pro forma condensed combined financial information below should be read in conjunction with the notes thereto and our audited historical consolidated financial statements for the year ended December 31, 2005 included in our Annual Report on Form 10-K and the audited historical consolidated financial statements for the year ended December 31, 2005 of Jefferson-Pilot included in its Annual Report on Form 10-K.

The merger will be accounted for under the purchase method of accounting, with LNC treated as the accounting acquirer. Under this method of accounting, the purchase price will be allocated to Jefferson-Pilot s net assets based upon the estimated fair values of Jefferson-Pilot s assets and liabilities at the date of completion of the merger. The actual purchase price to be so allocated will depend upon, among other things, the number of shares of Jefferson-Pilot common stock issued and outstanding or subject to outstanding options immediately prior to the merger. The unaudited pro forma condensed combined financial statements include adjustments, which are based upon preliminary estimates, to reflect the allocation of the purchase price to Jefferson-Pilot s net assets as of December 31, 2005. The purchase price allocation reflected herein is preliminary and final allocation of the purchase price will be based upon the actual purchase price and the actual assets and liabilities of Jefferson-Pilot as of the date of the completion of the merger. Accordingly, the actual purchase accounting adjustments may differ materially from the pro forma adjustments reflected herein.

The following unaudited pro forma condensed combined financial statements are presented for illustrative purposes only and are not necessarily indicative of what our actual financial position or results of operations would have been had the merger been completed on the date indicated above. In addition, the unaudited pro forma condensed combined financial statements do not purport to project the future financial position or operating results of the resulting company. These statements do not give effect to (1) our or Jefferson-Pilot s results of operations or other transactions or developments since December 31, 2005, (2) the impact of possible revenue enhancements, expense efficiencies or synergies expected to result from the merger or contemplated share repurchases of our common stock, (3) the merger related costs of approximately $180 million to integrate our and Jefferson-Pilot s operations or (4) the effects of transactions or developments that may occur subsequent to the merger. The foregoing matters could cause both LNC s pro forma historical financial position and results of operations, and LNC s actual future financial position and results of operations, to differ materially from those presented in the following unaudited pro forma condensed combined financial statements.

**Unaudited Pro Forma Condensed Combined Balance Sheet**
**(in millions)**
**December 31, 2005**

| | Lincoln National Corporation | Jefferson-Pilot Corporation | Pro Forma Adjustments | Note | Pro Forma |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Investments: | | | | | |
| Securities available-for-sale, at fair value: | | | | | |
| Fixed maturity | $ 33,443 | $ 20,206 | $ 2,034 | 3(a) 3(b) | $ 55,683 |
| Equity | 145 | 620 | (3) | 3(c) | 762 |
| Fixed maturity held-to-maturity | | 1,974 | (1,974) | 3(a) | |
| Trading securities | 3,246 | | | | 3,246 |
| Mortgage loans on real estate | 3,663 | 3,982 | 212 | 3(d) | 7,857 |
| Policy loans | 1,862 | 833 | | | 2,695 |
| Other investments | 809 | 376 | 208 | 3(e) | 1,393 |
| Total Investments | 43,168 | 27,991 | 477 | | 71,636 |
| Cash and invested cash | 2,312 | 150 | (92) | 3(f) | 2,370 |
| Deferred acquisition costs and value of business acquired | 5,105 | 2,822 | (554) | 3(g) | 7,373 |
| Amounts recoverable from reinsurers | 6,926 | 1,318 | (148) | 3(h) | 8,096 |
| Goodwill | 1,194 | 312 | 2,991 | 3(i) | 4,497 |
| Other intangible assets | | 198 | 979 | 3(j) | 1,177 |
| Other assets | 2,336 | 820 | 76 | 3(k) | 3,232 |
| Assets held in separate accounts | 63,747 | 2,467 | | | 66,214 |
| Total Assets | $ 124,788 | $ 36,078 | $ 3,729 | | $ 164,595 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | |
| Liabilities: | | | | | |
| Insurance and Investment Contract Liabilities: | | | | | |
| Insurance policy and claim reserves | $ 24,652 | $ 4,636 | $ 96 | 3(l) | $ 29,384 |
| Contractholder funds | 22,571 | 22,456 | (227) | 3(m) | 44,800 |
| Total Insurance and Investment Contract Liabilities | 47,223 | 27,092 | (131) | | 74,184 |
| Short-term debt | 120 | 260 | | | 380 |
| Long-term debt | 999 | 600 | 1,783 | 3(n) | 3,382 |
| Junior subordinated debentures issued to affiliated trusts | 334 | 309 | (13) | 3(o) | 630 |
| Funds withheld reinsurance liabilities | 2,012 | | | | 2,012 |
| Deferred gain on indemnity reinsurance | 836 | | | | 836 |
| Other liabilities | 3,132 | 1,433 | 408 | 3(p) | 4,973 |
| Liabilities related to separate accounts | 63,747 | 2,467 | | | 66,214 |
| Total Liabilities | 118,403 | 32,161 | 2,047 | | 152,611 |
| Shareholders Equity: | | | | | |
| Series A preferred stock | 1 | | | | 1 |
| Common stock and additional paid-in capital | 1,775 | 186 | 5,413 Director | | |

Erez Meltzer
56
Director
Eytan Barak (1)(2)
69
External Director
Ophira Rosolio-Aharonson(1)(2)(3)
64

External Director

---

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Banking Committee (established in March 2014)

Ms. Ophira Rosolio-Aharonson was elected to serve as an external director at our 2012 annual general meeting of shareholders for a third three-year term, pursuant to the provisions of the Israeli Companies Law. Mr. Eytan Barak was elected to serve as an external director at our 2011 annual general meeting of shareholders for a second three-year term, pursuant to the provisions of the Israeli Companies Law, following which the service of Mr. Barak as an external director may be renewed for one additional three-year term. Yitzhak Nissan, Mordechai Marmorstein, Gavriel David Meron, and David Rubner were elected to serve as directors at our 2013 annual general meeting of shareholders on October 22, 2013 until our 2014 shareholders meeting. Erez Meltzer was re-elected to serve as a director at our 2011 annual general meeting of shareholders on November 9, 2011 until our 2014 annual general meeting of shareholders.

Yitzhak Nissan was elected to serve on our Board of Directors in October 2013. Mr. Nissan is the founder of Nistec Group and has served as its chief executive officer since 1985. Mr. Nissan served as a Presiding Member of ILTAM (Israeli Users' Association of Advanced Technologies in Hi-Tech Integrated Systems) between 2008 and 2009, and as a Presiding Member of the Israeli Association of Electronics and Software Industries since 2012. Mr. Nissan also established the VPs Operations Forum, which brings thought leadership to 200 VPs of operations from diverse hi-tech companies in Israel. In 2008, Mr. Nissan received the Distinguished Industry Award from the mayor of Petach Tikva Municipality. Mr. Nissan has a BSc. degree in Electronic Engineering from the University of Buffalo, New York.

Dr. Mordechai Marmorstein was elected to serve on our Board of Directors in October 2013 and is a member of our Compensation Committee. From 1992 to 2001, Dr. Marmorstein was the chief financial officer of Pazchim Co. Ltd. Dr. Marmorstein was also an internal auditor and accountant at Negev Phosphate Works. Dr. Marmorstein served as the chairman of Teshet (Tourist Enterprises and Aviation Services Co. Ltd.), a subsidiary of El-Al, the Israeli national airline, from 1999 to 2000. Dr. Marmorstein holds a B.A. degree in Economics, an M.A. degree in Contemporary Jewry Studies and a Ph.D. in Jewish History Studies, all from Bar-Ilan University.

Gavriel David Meron was elected to serve on our Board of Directors in October 2013. Mr. Meron has served as the president and chief executive officer of novoGI Inc. since September 2011 and as the chairman and chief executive officer of M.G.D. Management Services & Investments Ltd. since November 2006. Mr. Meron also served as the chairman and chief executive officer of Spirocor Ltd. between September 2008 and December 2010 and was the founder, president and chief executive officer of Given Imaging Ltd. from 1998 to 2006. Mr. Meron holds a B.A. degree in Economics and Statistics from the Hebrew University of Jerusalem and an MBA degree in International Business from Tel Aviv University.

David Rubner was elected to serve on our Board of Directors in October 2013. Mr. Rubner has served as the Chairman and Chief Executive Officer of Rubner Technology Ventures Ltd. and as a Partner in Hyperion Israel Advisors Ltd., a venture capital firm since 2000. During the years 1991 to 2000, he was the President and Chief Executive Officer of ECI Telecom Ltd. Mr. Rubner serves on the board of directors of Check Point Software Ltd., Radware Ltd., Elbit Imaging Ltd., Telemessage International Ltd. and several private companies. He also serves on the boards of trustees and executive council of Bar-Ilan University and Shaare Zedek Hospital. Mr. Rubner holds a B.Sc. degree in engineering from Queen Mary College, University of London and an M.S. degree from Carnegie Mellon University.

Erez Meltzer has served the Chairman of our Board of Directors since April 1, 2011 and has served as a director since August 2009. Mr. Meltzer has served as the Chief Executive Officer of Gadot, a wholly-owned subsidiary of Ampal-American Israel Corporation, or Ampal, since November 2008. Mr. Meltzer also serves as a director of Ampal and Ericom Software Ltd. From 2006 to 2007, Mr. Meltzer served as the Chief Executive Officer of Africa Israel Group. From 2002 to 2006, Mr. Meltzer served as the President and Chief Executive Officer of Netafim Ltd. From 1999 to 2001, Mr. Meltzer served as the President and Chief Executive Officer of CreoScitex. Mr. Meltzer served as a colonel in the Israeli Defense Forces – Armored Corps. (reserves). Mr. Meltzer has served as the Chairman of the Lowenstein Hospital Friends Association since 1999 and is the honorary chairman of the Israeli Chapter of YPO (the Young Presidents Organization). Mr. Meltzer studied Economics and Business at the Hebrew University of Jerusalem and Boston University, and is a graduate of the Advanced Management Program at Harvard Business School.

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

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

Executive Officers

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

| Name | Age | Position |
|---|---|---|
| Arieh Reichart | 60 | President and Chief Executive Officer |
| Amnon Shemer | 55 | Vice President, Finance and Chief Financial Officer |
| Eliyahu Dvora | 57 | Vice President, Operations |
| Shay Shahar | 52 | Vice President, Marketing and Sales |
| Roberto Tulman | 55 | Vice President, Technologies and Chief Technology Officer |
| Shlomo Danino | 51 | Vice President, Engineering |
| Galit Odded | 42 | Vice President, Human Resources |
| Avraham Gal | 50 | Vice President, 5S and Chief Information Officer, General Manager of Kubatronik |
| Eva Zilberleib | 62 | Vice President, Quality Assurance and Product Marketing Director |
| James Barry | 55 | President of Eltek USA Inc. |
| Axel Herrmann | 56 | General Manager, Eltek Europe |
| Udo Vogt | 57 | General Manager of Kubatronik |

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

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

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

Shay Shahar was appointed as our vice president, marketing and sales in December 2009. Mr. Shahar joined us in July 1992 and since such time has held various positions in our marketing and sales department, from Regional Sales Manager to Corporate Sales Director, and was appointed to his current position of vice president, marketing and sales in December 2009. Mr. Shahar holds an Electronic Practical Engineer degree from Ort Technology College in Israel, a B.Sc. degree in General Business from Champlain College, Burlington, Vermont and an M.S.M. degree in Management from the Polytechnic University, New York.

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

Shlomo Danino joined us in August 1985. During his employment with our company, Mr. Danino has served as product engineering manager and was appointed as vice president, engineering in February 2000. Mr. Danino holds a B.Sc. degree in Mechanics from Ort Technology College in Israel and a B.Sc. degree in general business from Champlain College, in Burlington, Vermont.

Galit Odded joined us in December 2012 as vice president, human resources. Prior to joining us, from 1999 to 2012, Ms. Odded held training and organizational development positions in the following companies: Intel Corp (from 1999 to 2006); Eltek Ltd. (from February 2007 to July 2010); and Siemens (from September 2010 to October 2012), where she gained experience in training, employee and talent development, organizational change, recruiting, team building and employee integration. Ms. Odded holds a B.Sc degree in Biology and Nutrition Science from the Hebrew University of Jerusalem and an M.A degree in Labor Studies from the Tel Aviv University.

Avi Gal was appointed as our vice president, 5S and chief information officer in December 2009 and was appointed as General Manager of Kubatronik in July 2013. Mr. Gal joined us in August 1986 as an Industrial engineer in shop floor control department. In 1988, Mr. Gal established our IT department and led the adaptation of a generic ERP system to the PCB sector. Between 1994 and 2005, Mr. Gal managed his own business, mainly in developing and implementing an ERP System for maintenance, repair and overhaul for the aviation sector. In 2005, Mr. Gal returned to our company as chief information officer. Mr. Gal holds a B.Sc. degree in Management and Industrial Engineering from the Technion - Israel Institute of Technology.

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

James Barry joined us in September 2008 as the president of Eltek USA Inc. Prior to that and from May 2003, Mr. Barry served as a consultant to us in a sales, marketing and applications engineering role. Mr. Barry has over 30 years' experience within the PCB industry. Mr. Barry has held management positions within engineering, sales and operations for some of the top PCB producers. Mr. Barry attended Northern Essex Community College.

Axel Herrmann joined us in March 2006 as commercial manager of Kubatronik, our German subsidiary and was appointed as general manager, Eltek Europe in August 2009. From July 2003 until February 2006, Mr. Herrmann served as commercial manager for Heinrich Heiland GmbH, a supplier for the automotive industry. From October 2000 until June 2003, Mr. Herrmann worked as commercial manager for Helukabel GmbH, a company that produces and sells cables and wires. From July 1989 until September 2000, Mr. Herrmann worked at Pfisterer, a producer of electrical devices for power plants, initially as a department head in bookkeeping, advanced to commercial manager and his last position was managing director. Mr. Herrmann holds a B.A. degree in economics from Hohenheim University in Stuttgart, Germany.

Udo Vogt joined us in January 2014 and was appointed as General Manager of Kubatronik, our German subsidiary in March 2014. Mr. Vogt has over 17 years of experience as a general manager. From September 2012 to March 2013, Mr. Vogt served as general manager of Wodtke GmbH, a provider of pellet stoves. From August 2005 to August 2012, Mr. Vogt served as general manager of ITW MORLOCK GmbH, a manufacturer of pad printing and ink-jet machines, and associated consumable material. From October 1995 to July 2005, Mr. Vogt served as general manager of the Pfullingen plant of Ruwel AG (now Ruwel International GmbH), a PCB producer. From August 1985 to September 1995, Mr. Vogt worked for Wandel & Goltermann GmbH & Co., a manufacturer of electronic measurement instruments. Mr. Vogt holds an engineering diploma from the University of Stuttgart (M.S. equivalent).

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

B. Compensation

The following table sets forth all compensation we paid with respect to all of our directors and executive officers as a group for the year ended December 31, 2013.

| | Salaries, fees, commissions and bonuses | Pension, retirement and similar benefits |
|---|---|---|
| All directors and executive officers as a group (then consisting of 19 persons) | $2.4 million (1)(2) | $219,000 |

___________

(1) During the year ended December 31, 2013, we paid each of our outside and independent directors an annual fee of $10,675 and an attendance fee of $634 per meeting. These fees are included in the above amount.
(2) The salaries amount includes expenses for automobiles and other benefits that we provide to certain of our executive officers.

C. Board Practices

Introduction

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

Election of Directors

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

Generally, at each annual meeting of shareholders, directors are elected by a vote of the holders of a majority of the voting power represented and voting at such meeting. All the members of our board of directors (except the external directors as detailed below) may be reelected upon completion of their term of office. Directors (other than external directors) may be removed earlier from office by a resolution passed at a general meeting of our shareholders. Our board of directors may temporarily fill vacancies in the board or add to their body until the next annual meeting of shareholders, provided that the total number of directors will not exceed the maximum number permitted under our articles of association.

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

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

External and Independent Directors

External directors. Under the Israeli Companies Law, Israeli companies whose shares have been offered to the public are required to appoint at least two external directors. The Israeli Companies Law provides that a person may not be appointed as an external director if (i) the person is a relative of a controlling shareholder; (ii) the person, or the person's relative, partner, employer or an entity under that person's control, has or had during the two years preceding the date of appointment any affiliation with the company, or the controlling shareholder or its relative; (iii) in a company that does not have a controlling shareholder, such person has an affiliation (as such term is defined in the Israeli Companies Law), at the time of his appointment, to the chairman of the Company's board of directors, chief executive officer, a shareholder holding at least 5% of the share capital of the company or the chief financial officer; (iv) such person is an employee of the Israeli securities authority or an Israeli stock exchange; and (v) such person's relative, partner, employer, supervisor, or an entity he controls, has other than negligible business or professional relations with any of the persons mentioned in subsection (ii) above, even if such relations are not maintained on a regular basis. The term "relative" means a spouse, sibling, parent, grandparent, child or child, sibling or parent of spouse or spouse of any of the above. The term "affiliation" includes an employment relationship, a material business or professional relationship maintained on a regular and continuous basis, control and service as an office holder excluding service as an external director of a company that is offering its shares to the public for the first time. In addition, no person may serve as an external director if the person's position or other activities create or may create a conflict of interest with the person's responsibilities as director or may otherwise interfere with the person's ability to serve as director. If, at the time an external director is appointed all members of the board of directors who are not the controlling shareholders or their relatives, are of the same gender, then that external director must be of the other gender. A director of one company may not be appointed as an external director of another company if a director of the other company is acting as an external director of the first company at such time.

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

External directors are elected by shareholders. The shareholders voting in favor of their election must include at least a majority of the shares of the non-controlling shareholders (and those who do not have a personal interest in the matter as a result of their relationship with the controlling shareholders) of the company voting on the matter (not including abstaining votes). This majority approval requirement need not be met if the total shareholdings of those non-controlling shareholders (and those who do not have a personal interest in the matter as a result of their relationship with the controlling shareholders) voting against their election represent 2% or less of all of the voting rights in the company. External directors serve for a three-year term, which may be renewed for two additional three year periods through one of the following mechanisms: (i) the board of directors proposed the nominee and his appointment was approved by the shareholders in the manner required to appoint external directors for their initial term; or (ii) a shareholder holding 1% or more of the voting rights proposed the nominee, and the nominee is approved by a majority of the votes cast by the shareholders of the company on the matter, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relationship with any controlling shareholder and excluding abstentions, provided that the aggregate votes cast by shareholders who are not controlling shareholders and do not have a personal interest in the matter as a result of their relationship with the controlling shareholders voted in favor of the reelection of the nominee constitute more than 2% of the voting rights in the company, and provided further that at the time of such nomination or in the two years preceding such nomination, such external director or his relative are neither the shareholder who proposed such nomination, or a shareholder holding 5% or more of the company's issued share capital or voting power, in each case who, or whose controlling shareholder or any entity controlled by them (i) has business relations with the company, or (ii) is a competitor of the company.

External directors cannot be dismissed from office unless: (i) the board of directors determines that the external director no longer meets the statutory requirements for holding the office, or that the external director has breached the external director´s fiduciary duties and the shareholders vote, by the same majority required for the appointment, to remove the external director after the external director has been given the opportunity to present his or her position; (ii) a court determines, upon a request of a director or a shareholder, that the external director no longer meets the statutory requirements of an external director or that the external director has breached his or her fiduciary duties to the company; or (iii) a court determines, upon a request of the company or a director, shareholder or creditor of the company, that the external director is unable to fulfill his or her duty or has been convicted of specified crimes. Each committee that is authorized to exercise powers that are usually vested in the board of directors must include at least one external director and the audit committee and compensation committee must each include all of the external directors. An external director is entitled to compensation as provided in regulations promulgated under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

Ms. Ophira Rosolio-Aharonson was elected to serve as an external director at our 2012 annual general meeting of shareholders for a third three-year term, and Mr. Eytan Barak was elected to serve as an external director at our 2011 annual general meeting for a second three-year term.

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

Also, pursuant to the Israeli Companies Law, a director may be qualified as an independent director if such director is either (i) an external director; or (ii) a director who complies with the following requirements: (y) he or she is eligible for nomination as an external director and the audit committee has approved such eligibility; and (z) he or she has not acted as a director of the company for a period exceeding nine consecutive years. For this purpose, a hiatus of less than two years of service will not be deemed to be an interruption in the continuation of service.

Our Audit Committee is comprised only of directors who are independent under the requirements of the Israeli Companies Law and also meet the independence requirements under the NASDAQ and the SEC rules.

Committees of the Board of Directors

Audit Committee

Under the Israeli Companies Law, the board of directors of any public company must establish an audit committee. The audit committee must consist of at least three directors, must include all of the external directors and must have a majority of independent directors.

The audit committee may not include the chairman of the board of directors, the controlling shareholder (or any of the controlling shareholder's relatives), any director employed by the company or by its controlling shareholder or by an entity controlled by the controlling shareholder, any director who regularly provides services to the company or to its controlling shareholder or to an entity controlled by the controlling shareholder, and any director who derives most of his or her income from the controlling shareholder. The chairman of the audit committee must be an external director. A majority of the members of the audit committee constitutes a quorum, provided that the majority of the members present at the meeting are independent directors (within the meaning of the Israeli Companies Law) and at least one external director is present at the meeting.

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

Our audit committee meets at least once each quarter. Under the Israeli Companies Law, the roles of the audit committee are (i) to identify deficiencies in the management of our business, including in consultation with the internal auditor and our independent auditors, and to suggest appropriate courses of action to amend such deficiencies; (ii) to define whether certain acts and transactions that involve conflicts of interest are material or and to define whether transactions that involve interested parties are extraordinary or not, and to approve such transactions (which may be approved according to certain criteria set out by our audit committee on an annual basis); (iii) to establish procedures to be followed in respect of related party transactions with a controlling shareholder (where such are not extraordinary transactions), which may include, where applicable, the establishment of a competitive process for such transaction, under the supervision of the audit committee, or individual, or other committee or body selected by the audit committee, in accordance with criteria determined by the audit committee; (iv) to determine procedures for approving certain related party transactions with a controlling shareholder, which having been determined by the audit committee not to be extraordinary transactions, were also determined by the audit committee not to be negligible transactions; (v) to examine the performance of our internal auditor and whether he is provided with the required resources and tools necessary for him to fulfill his role, considering, among others, the company’s size and special needs, and to review his annual plan and approve it should the company's articles of association require the approval of the Board for such plan; and (vi) to oversee and approve the retention, performance and compensation of our independent auditors and to establish and oversee the implementation of procedures concerning our systems of internal accounting and auditing control and (vi) to set procedures for handling of complaints made by company’s employees in connection with management deficiencies and the protection to be provided to such employees.

The audit committee may consult from time to time with our independent auditors and internal auditor with respect to matters involving financial reporting and internal accounting controls.

In the event the audit committee has discovered a material deficiency in the company’s business operations, it must hold at least one meeting regarding such deficiency, at which the internal auditor or the independent accountants must be present and in which office holders who are not members of the audit committee may not participate, except for the presentation of their position.

Our audit committee consists of three members of our board of directors who satisfy the respective requirements of the SEC, NASDAQ and Israeli law for the composition of the audit committee. Our audit committee is currently composed of Messrs. Barak and Marmorstein and Ms. Rosolio-Aharonson.

Compensation Committee

Effective December 2012, Israeli law requires our Board of Directors to appoint a compensation committee which must be comprised of at least three directors, including all of the external directors, which shall be a majority of the members of the compensation committee and one of whom must serve as chairman of the committee. However, subject to certain exceptions, Israeli companies whose securities are traded on stock exchanges such as NASDAQ, and who do not have a controlling party, do not have to meet this majority requirement; provided, however, that the compensation committee meets other Companies Law composition requirements, as well as the requirements of the non-Israeli jurisdiction where the company’s securities are traded. Other than the external directors, the rest of the members of the compensation committee shall be directors who will compensation for their role as directors only in accordance with Israeli Companies Law regulations applicable to the compensation of external directors, or amounts paid pursuant to indemnification and/or exculpation contracts or commitments and insurance coverage.

On January 9, 2014, our shareholders approved a compensation policy for our company. The compensation policy must be approved every three years by our compensation committee, board of directors and shareholders, voting with a special majority (in that order). The compensation policy is based on and references certain matters and provisions set forth in the Israeli Companies Law, which include: (i) promoting our company’s goals, work plan and policy with a long-term view; (ii) creating appropriate incentives for our company's office holders, considering, among other things, our company's risk management policy; (iii) our company's size and nature of operations; and (iv) with respect to variable elements of compensation (such as annual cash bonuses), the office holder's contribution to achieving company objectives and maximization of our company's profits, with a long-term view and in accordance with his or her position. For further details, see our proxy statement for a special general meeting held on January 9, 2014, which we filed with the SEC on December 5, 2013 under Form 6-K.

Our compensation committee is currently composed of Ms. Rosolio-Aharonson (Chairman of the committee) and Messrs. Marmorstein and Barak.

Banking Committee

In March 2014, our Board of Directors established a banking committee, which was authorized to adopt resolutions on behalf of the Board in respect of banking activities, including opening of new accounts and signing credit agreements of up to $9 million.

Our banking committee is currently composed of Mr. Nissan and Ms. Rosolio-Aharonson.

Internal Audit

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

Directors' Service Contracts

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

Exculpation, Indemnification and Insurance of Directors and Officers

Exculpation of Office Holders

The Israeli Companies Law provides that an Israeli company cannot exculpate an office holder from liability with respect to a breach of his or her duty of loyalty. If permitted by its articles of association, a company may exculpate in advance an office holder from his or her liability to the company, in whole or in part, with respect to a breach of his or her duty of care. However, a company may not exculpate in advance a director from his or her liability to the company with respect to a breach of his duty of care with respect to distributions.

Our articles of association allow us to exculpate any office holder from his or her liability to us for breach of duty of care, to the maximum extent permitted by law, before or after the occurrence giving rise to such liability. We provided an exemption letter to each of our directors and officers, and agreed to provide the same to our future office holders.

Insurance of Office Holders

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

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

Without derogating from the above, we may enter into a contract to insure the liability of an office holder for an obligation imposed on such office holder in consequence of an act or omission done in such office holder’s capacity as an office holder, in the following case: expenses, including reasonable litigation expenses and legal fees, incurred by the office holder as a result of a proceeding instituted against such office holder in relation to (A) infringements that may result in imposition of financial sanction pursuant to the provisions of Chapter H'3 under the Israeli Securities Law of 1968 (as amended), or the “Securities Law”, or (B) administrative infringements pursuant to the provisions of Chapter H'4 under the Securities Law or (C) infringements pursuant to the provisions of Chapter I'1 under the Securities Law and (ii) payments made to the injured parties of such infringement under Section 52ND(a)(1)(a) of the Securities Law.

Indemnification of Office Holders

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

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

Our articles of association provide that we may indemnify an office holder retroactively for certain obligations or expenses imposed on such office holder in consequence of an act or omission done in such office holder’s capacity as an officer in our company. These obligations and expenses include:

i. a monetary obligation imposed on the office holder in favor of another person pursuant to a judgment, including a judgment given in settlement or an arbitrator's award that has been approved by a court;

ii. reasonable litigation expenses, including advocates’ professional fees, incurred by the office holder pursuant to an investigation or a proceeding commenced against the office holder by a competent authority and that was terminated without an indictment and without having a monetary charge imposed on the office holder in exchange for a criminal procedure (as such terms are defined in the Companies Law), or that was terminated without an indictment but with a monetary charge imposed on the office holder in exchange for a criminal procedure in a crime that does not require proof of criminal intent or in connection with a financial sanction;

iii. reasonable litigation expenses, including advocates' professional fees, incurred by the office holder or which the office holder is ordered to pay by a court, in proceedings filed against the office holder by the company or on its behalf or by another person, or in a criminal indictment in which the office holder is acquitted, or in a criminal indictment in which the office holder is convicted of an offence that does not require proof of criminal intent;

iv. expenses, including reasonable litigation expenses and legal fees, incurred by an office holder as a result of a proceeding instituted against such office holder in relation to (A) infringements that may result in imposition of financial sanction pursuant to the provisions of Chapter H'3 under the Securities Law or (B) administrative infringements pursuant to the provisions of Chapter H'4 under the Securities Law or (C) infringements pursuant to the provisions of Chapter I'1 under the Securities Law; and

v. payments to an injured party of infringement under Section 52ND(a)(1)(a) of the Securities Law.

Our articles of association also provide that we may undertake to indemnify in advance an office holder, in accordance with the conditions set under applicable law, in respect of the obligations or expenses specified in (i)-(v) above, provided that such undertaking is limited to types of events which in the board of directors' opinion may be anticipated, in light of our company's activities, at the time of granting the indemnity undertaking, and to an amount or criteria which the board of directors determines is reasonable in the circumstances of the case, both of which are to be specified in the indemnification undertaking.

According to our compensation policy, the total amount of indemnification that our company undertakes towards all persons whom it has resolved to indemnify, jointly and in the aggregate, shall not exceed an amount equal to $2 million but in no event more than twenty five percent (25%) of the net equity of our company.

Limitations on Exculpation, Insurance and Indemnification

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

Under the Israeli Companies Law, exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, an office holder (other than the chief executive officer) must be approved by the company's compensation committee and board of directors and, if such office holder is a director, also by the company's shareholders. Exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, the chief executive officer must be approved by the company's compensation committee, board of directors and by a special majority of the shareholders.

We have agreed to indemnify our office holders 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, including 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, all subject to Israeli law and certain limitations in the agreements. The aggregate amount we may pay our office holders pursuant to our indemnification undertaking may not exceed, jointly and in the aggregate, $2 million but in any event not more than 25% of our company's net equity. We currently maintain directors and officers liability insurance with a per claim and aggregate coverage limit of $10 million. Under our current directors and officers liability insurance policy, losses will be paid in accordance with the following order of priority: first, on behalf of officers and directors, for all loss that they will be obligated to pay as a result of a claim made against them; thereafter, on our behalf, for all loss that an officer or director will be obligated to pay as a result of a claim made against them, to the extent that we are required or permitted by law to indemnify our officers and directors; and thereafter, on our behalf, for all loss that we will be obligated to pay as a result of a securities claim made against us.

D. Employees

As of December 31, 2013, we employed 345 full-time employees in Israel, of which 220 were employed in manufacturing services, 40 in process and product engineering, 46 in quality assurance and control, 15 in sales and marketing and 24 in finance, accounting, information service and administration. As of December 31, 2012, we employed 343 full-time employees in Israel, of which 221 were employed in manufacturing services, 39 in process and product engineering, 43 in quality assurance and control, 15 in sales and marketing and 25 in finance, accounting, information service and administration. As of December 31, 2011, we employed 335 full-time employees in Israel, of which 215 were employed in manufacturing services, 39 in process and product engineering, 43 in quality assurance and control, 15 in sales and marketing and 23 in finance, accounting, information service and administration.

In addition, Kubatronik, our subsidiary in Germany, employed 44 full-time employees and five part-time employees as of December 31, 2013, 45 full-time employees and five part-time employees as of December 31, 2012, and 46 full-time employees and five part-time employees as of December 31, 2011.

Eltek USA, a wholly-owned Delaware subsidiary, employed three full-time employees as of December 31, 2013 and four employees as of December 31, 2012 and 2011.

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

In November 2011, we were notified by the Histadrut that more than one-third of our employees in Israel had decided to join the Histadrut and that they have 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.

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

Pursuant to Israeli law, we are legally required to pay severance benefits upon certain circumstances, including the retirement or death of an employee or the termination of employment of an employee without due cause, equivalent to a one month salary for each year of employment with the company. Most of our employees are covered by pension plans providing customary benefits including retirement and severance benefits. Some of our employees are covered by life and pension insurance policies providing similar benefits. We contribute 8.33% of base salaries to the employees' pension funds or life pension insurance policies to cover our liability for severance pay. Pursuant to Section 14 of the Israeli Severance Pay Law, if a company contributes to an employee's pension fund or severance fund, then the employee is entitled only to the severance amounts accumulated in such fund(s) upon resignation from the company or termination by the company, and the company is not obligated to make additional payments to the employee upon termination of employment with the company.

With respect to pension benefits, we contribute between 6.0% to 7.5% of base salaries to the employees' pension plans and between 6.0% to 7.5% to those employees who have life insurance policies. The employees who have pension plans contribute between 5.5% to 7.0% of base salaries to their pension plans, and the employees who have life insurance policies contribute 5.0% of their base salaries to their policies.

We also contribute between 1% to 7.5% of base salaries to certain “professional advancement” funds for managers, engineers and certain others and such employees have to match such contribution, up to 2.5% of their base salaries.

Israeli employers and employees are required to pay predetermined sums to the National Insurance Institute, which is similar to the United States Social Security Administration. Subject to minimum thresholds, the employer contribution to the National Insurance Institute is at the rate of 6.75% of the salary (6.5% in 2013) and the employee contribution to the National Insurance Institute is at the rate of 12.0% of the salary (of which 5% relates to payments for national health insurance), both of which are limited to a maximum salary of NIS 43,240 (approximately $12,350) in 2014, the same as in 2013, and NIS 41,850 in 2012 (approximately $10,850). In the year ended December 31, 2013, our aggregate payments as an employer to the National Insurance Institute amounted to approximately 4.4% of the salaries.

E. Share Ownership

Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information as of April 24, 2014 regarding the beneficial ownership of our ordinary shares by our directors and executive officers and all of our executive officers and directors as a group:

| Name | Number of Ordinary Shares Beneficially Owned | Percentage of Outstanding Ordinary Shares |
|---|---|---|
| Yitzhak Nissan | 5,122,095 | 50.5 % |
| Arieh Reichart | 85,515 | 0.8 % |
| All executive officers and directors as a group (19 persons)* | 5,207,610 | 51.3 % |

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*As of April 24, 2014, except for Messrs. Nissan and Reichart , none of our directors or executive officers held any ordinary shares or options.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information as of April 24, 2014 regarding the beneficial ownership by all shareholders known to us to own beneficially 5% or more of our ordinary shares:

| Name | Number of Ordinary Shares Beneficially Owned (1) | Percentage of Ownership (2) |
|---|---|---|
| Nistec Ltd. (3) | 5,122,095 | 50.5 % |
| Yitzhak Nissan (3) | 5,122,095 | 50.5 % |

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

(2) The percentages shown are based on 10,142,762 ordinary shares issued and outstanding as of April 24, 2014.

(3) Nistec Ltd. is an Israeli private company controlled by Yitzhak Nissan. Accordingly, Mr. Nissan may be deemed to be the beneficial owner of the ordinary shares held directly by Nistec.

Significant Changes in the Ownership of Major Shareholders

On August 19, 2013, we entered into an agreement to issue and sell 3,532,655 ordinary shares of our company, nominal value NIS 0.6 each, to Nistec for $4.2 million. Nistec is controlled by Yitzhak Nissan, who beneficially owns all of the shares owned by Nistec. Also on August 19, 2013, Nistec purchased 1,589,440 of our ordinary shares from Merhav M.N.F. Ltd., which at the time held 24.1% of our outstanding ordinary shares. The total consideration paid by Nistec in the two transactions was $6.5 million. Nistec obtained a portion of those funds from a loan extended by Bank Leumi Le'Israel, and the shares that Nistec acquired constitute collateral for the loan.

As a result of these transactions, which were closed on November 1, 2013, Nistec acquired 50.5% of our ordinary shares, which constitute 50.5% of our issued share capital on a fully diluted basis, and Nistec gained control of our company. Several of our directors resigned, and four new directors were nominated and elected, including Yitzhak Nissan, who was elected Chairman of our Board of Directors. We also approved compensation terms for the directors, indemnification agreements between our company and our new directors, granted exculpation letters to our directors and officers, granted waiver and release letters to our then-current directors and officers, and purchased a run-off insurance policy for our then-current directors and officers. We also amended our Articles of Association along with our issuance of the shares to Nistec. Nistec and Yitzhak Nissan have the shared power to vote, dispose of, direct the vote of, and direct the disposition of the 5,122,095 ordinary shares of our company beneficially owned by Nistec.

Major Shareholders Voting Rights

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

Record Holders

Based on the information provided to us by our transfer agent, as of April 22, 2014, there were 17 holders of record of our ordinary shares, of which 12 record holders holding approximately 48.6% of our ordinary shares had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside, since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 48.3% of our outstanding ordinary shares as of such date).

B. Related Party Transactions

Until November 2013, our former principal shareholder Mr. Josef Maiman (through entities under his control) owned Gadot, one of our major raw material suppliers. For the periods ended October 31, 2013 and December 31, 2012 and 2011, we purchased raw materials from Gadot in the aggregate amount of $3.4 million, $3.3 million, and $2.7 million, respectively. As of December 31, 2012 and 2011, our accounts payable to Gadot amounted to $1.3 million, and $1.0 million, respectively. As of December 31, 2013, Gadot was not a related party to us. Our transactions with Gadot are carried out on an arm's-length basis. The nature of our business relationship with Gadot did not change following the acquisition of Gadot by Mr. Maiman in 2008, nor did the scope of our annual purchases of alternative raw materials, other than to the extent that the amount of our purchases has increased as our use of raw materials has increased. According to the Israeli Companies Law, we were required to present the transaction for the approval of our shareholders, and it was approved in our 2011 annual general meeting of shareholders.

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In connection with our investment agreement signed in August 2013 with Nistec for Nistec's acquisition of a controlling stake in our company, we entered into several transactions with Nistec and undertook several undertakings in favor of Mr. Yitzhak Nissan, who is the owner of Nistec, and other directors who were elected pursuant to Nistec's acquisition of a controlling stake in our company. These transactions and undertakings included, among others:

- A registration rights agreement with Nistec;
- A management agreement with Nistec;
- A finder's fee to be paid to Merhav M.N.F. Ltd.; and
- Approvals of compensation, indemnification, exculpation, waiver and release, run-off insurance, and directors' and officers' insurance policies, in favor of directors of our company.

For details regarding these transactions, see the proxy statement we filed with the SEC under Form 6-K on September 12, 2013.

## C. Interests of Experts and Counsel

Not applicable.

# ITEM 8. FINANCIAL INFORMATION

## A. Consolidated Statements and Other Financial Information

See the consolidated financial statements, including the notes thereto, and the exhibits listed in Item 18 hereof.

Legal Proceedings

From time to time we are involved in legal proceedings arising from the operation of our business.  Based on the advice of our legal counsel, management believes that except for the proceedings discussed below, such current proceedings, if any, will not have a material adverse effect on our financial position or results of operations.

Environmental Related Matters

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 received any response from the Municipality to our letter dated September 16, 2009.

On January 1, 2014, we received notice dated December 31, 2013, from Meitav, the water company of the Petach Tikva municipality, requesting payment of fees totaling NIS 962,186 ($273,000) excluding VAT, for alleged discharges of "forbidden" industrial wastewater into the municipal sewage system, on the basis of three samplings conducted by Meitav on Eltek's premises during 2013. These samplings covered water consumption of 35,000 cubic meters of water out of 55,000 cubic meters consumed in 2013, thus we may be subject to an additional potential payment request of NIS 500,000 ($142,000). We are currently reviewing and assessing the demand of payment. Based on current information, we dispute the method of samplings conducted (Grab Samplings instead of Complex Samplings) and the location the samples were retrieved from. We will also examine the legitimacy of Meitav's Wastewater Monitoring Plan and the legality of its execution. We also believe that the new suggested Water and Sewage Corporations Rules (discharge of Industrial Wastewater into the Sewage System), 5774 - 2013 draft, published by the Water Authority, supports our argument as to the method of samplings conducted on our premises. We will also exercise our right of hearing and intend to appeal, if necessary, to the proper forum. In addition, one of the remedies requested in a petition held in the Israeli Supreme Court of Justice filed by the Manufacturers Association of Israel against the Water Authority, is a cancelation of all hanging demands of payment. At the same time, we are involved in discussion with Meitav, presenting our plans to invest in its Wastewater Treatment Facility, in order to eliminate the demand for payment. Management believes that that we have good arguments against such demand for payment and believes that we will not be liable to pay to Meitav any additional amounts beyond the amounts provided for in the financial statements.

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.

In addition, 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 certain conditions imposed by the Israeli Ministry for Environmental Protection. Compliance with these conditions may be costly.

Employee Related Matters

Two lawsuits have been filed against us in May 2008 and in March 2012 by two employees alleging that they had suffered personal injuries during their employment with us and are seeking aggregate financial compensation of approximately $180,000 for past damages and additional amounts for future lost income, pain and suffering as the court may determine.

Five other employees notified us between January 2011 and July 2013 that they allegedly suffered personal injuries during their employment with us. Of these four employees, one is seeking compensation of $170,000 and the others did not state their claim amount. We submitted the claims to our insurance company, which informed us that it is reviewing the statements of claim without prejudicing its rights to deny coverage.

Software License

A supplier of one of our software packages requested to conduct an audit of our operation to verify that we are not in breach of 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 a claim is made and 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.

Dividend Distribution Policy

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

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

B. Significant Changes

None.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Annual Stock Information

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

| Year | High | Low |
|---|---|---|
| 2009 | $ 1.70 | $ 0.66 |
| 2010 | $ 1.82 | $ 0.84 |
| 2011 | $ 1.85 | $ 0.91 |
| 2012 | $ 1.69 | $ 0.87 |
| 2013 | $ 3.95 | $ 1.07 |

Quarterly Stock Information

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

| | High | Low |
|---|---|---|
| 2012 | | |
| First Quarter | $ 1.69 | $ 1.21 |
| Second Quarter | $ 1.67 | $ 1.14 |
| Third Quarter | $ 1.52 | $ 1.03 |
| Fourth Quarter | $ 1.39 | $ 0.87 |
| 2013 | | |
| First Quarter | $ 1.40 | $ 1.09 |
| Second Quarter | $ 1.40 | $ 1.07 |
| Third Quarter | $ 1.80 | $ 1.08 |
| Fourth Quarter | $ 3.95 | $ 1.23 |
| 2014 | | |

| | | |
|---|---|---|
| First Quarter | $ 2.87 | $ 2.18 |

Monthly Stock Information

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

| Month | High | Low |
|---|---|---|
| September 2013 | $ 1.4 | $ 1.23 |
| October 2013 | $ 1.3 | $ 1.23 |
| November 2013 | $ 3.95 | $ 1.23 |
| December 2013 | $ 2.88 | $ 2.13 |
| January 2014 | $ 2.87 | $ 2.23 |
| February 2014 | $ 2.47 | $ 2.18 |
| March 2014 | $ 2.80 | $ 2.20 |
| April 2014 (through April 22, 2014) | $ 2.44 | $ 2.10 |

B. Plan of Distribution

Not applicable.

C. Markets

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

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expense of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

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

Purposes and Objects of the Company

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

The Powers of the Directors

Under the provisions of the Israeli Companies Law and our articles of association, a director cannot vote on a proposal, arrangement or contract in which he or she is has personal interest in, nor be present in the discussion relating to such transaction is considered. In addition, our directors' compensation is approved through special procedures prescribed in the Israeli Companies Law. In general, with respect to a director's compensation, approval is required by the (i) compensation committee, (ii) board of directors and (iii) company's shareholders with a regular majority (in that order).

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

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

Rights Attached to Shares

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

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

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

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

Generally, at each annual meeting of shareholders, directors are elected by a vote of the holders of a majority of the voting power represented and voting on the matter. All the members of our board of directors (except our external directors) may be reelected upon completion of their term of office. For information regarding the election of our external directors, see Item 6C. “Directors, Senior Management and Employees – Board Practices – External and Independent Directors.”

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

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

Changing Rights Attached to Shares

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

Annual and Extraordinary Meetings of Shareholders

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

The quorum required for a shareholders meeting consists of at least two shareholders present in person or represented by proxy who hold or represent, in the aggregate, at least one third of the voting rights of the issued share capital. A meeting adjourned for lack of a quorum is adjourned by seven business days, at the same time and place, or any later time and place as the board of directors designate in a notice to the shareholders. The requisite quorum at an adjourned general meeting will be: (i) if the original meeting was convened upon requisition by shareholders pursuant to the Israeli Companies Law - the number of shareholders holding the minimum number of voting shares necessary to make such requisition, present in person or by proxy; and (ii) in any other event - one or more shareholders, present in person or by proxy, holding at least one share. We do not follow the requirements of the NASDAQ Stock Market Rules regarding the quorum at shareholder meetings. See Item 16G. “Corporate Governance.”

Limitations on the Rights to Own Securities in Our Company

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

Provisions Restricting Change in Control of Our Company

Full Tender Offer. A person wishing to acquire shares of a publicly traded Israeli company who would as a result hold over 90% of the company’s issued and outstanding share capital, or of a certain class of shares, is required by the Israeli Companies Law to make a full tender offer to all of the company’s shareholders for the purchase of all of the remaining issued and outstanding shares of the company, or the class of shares, as the case may be. If (i) the shareholders who do not accept the offer hold less than 5% of the issued share capital of the company, or of the relevant class of shares, and the majority of shareholders having no personal interest in the offer accepted it; or (ii) shareholders who do not accept the offer hold less than 2% of the issued share capital of the company; then all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, the shareholders may petition the court to determine the consideration for the acquisition if the consideration is less than the shares' fair value (unless the acquirer has specified in the tender offer that any shareholder tendering his shares will not be entitled to such appraisal rights). If the dissenting shareholders hold more than 5% of the issued and outstanding share capital of the company, or of the relevant class of shares, as the case may be, the acquirer may not acquire additional shares of the company from shareholders who accepted the tender offer if following such acquisition the acquirer would own over 90% of the company's issued and outstanding share capital, or of the relevant class of shares.

Special Tender Offer. The Israeli Companies Law provides that an acquisition of control bloc of shares in a public Israeli company must be made by means of a special tender offer if as a result of the transaction the acquirer could become a holder of 25% or more of the voting rights in the company, unless one of the exemptions in the Israeli Companies Law (as described below) is met. This rule does not apply if there is already another holder of at least 25% of the voting rights in the company. Similarly, the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser could become a holder of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company, unless one of the exemptions in the Israeli Companies Law is met. Such exemptions include: (a) acquisition of shares issued pursuant to a private placement approved by a general meeting of the company as a private placement intended to provide the purchaser with holdings of 25% or more of the voting rights in the company, if there is no other shareholder of the company who holds more than 25% of the voting rights in the company, or with holdings of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company, (b) acquisition of shares from a holder of 25% or more of the voting rights in the company following which the purchaser will hold 25% or more of the voting rights in the company, or (c) acquisition of shares from a holder of 45% or more of the voting rights in the company following which the purchaser will hold 45% or more of the voting rights in the company.

A special tender offer must be extended to all shareholders of a company, but the offeror is not required to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. A special tender offer may be consummated only if (1) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (2) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer (disregarding holders who control the offeror and who have a personal interest in the acceptance of the offer or the holder of 25% or more of the voting rights of the company, any of their relatives, or corporations controlled by any of the above).

If a special tender offer is accepted, then the purchaser, any corporation controlled by it, or any person or entity controlling it or under common control with the purchaser may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

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

Since our company was incorporated prior to the entry into effect of the Companies Law, a merger transaction requires the approval of a special majority of 75% or more of the shareholders voting on the matter (disregarding abstentions For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the votes of shares represented at the shareholders meeting (disregarding abstentions) that are held by any of (1) parties other than the other party to the merger, (2) parties who hold 25% or more of the voting rights or any means of control or the right to appoint 25% or more of the directors of the other party, or (3) anyone on such parties' behalf, including relatives of such parties and corporations controlled them, vote against the merger. If, however, the merger involves a merger with a company's own controlling party or if the controlling party has a personal interest in the merger, then the merger is instead subject to the same special majority approval that governs all extraordinary transactions with controlling parties.

If the transaction would have been approved by the shareholders of a merging company but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company, if the court holds that the merger is fair and reasonable, taking into account the appraisal of the value of the parties to the merger and the consideration offered to the shareholders of the company.

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be consummated until at least 50 days have passed from the date on which a proposal for approval of the merger was filed by each party with the Israeli Registrar of Companies and at least 30 days have passed from the date on which the merger was approved by the shareholders of each party.

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

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

Disclosure of Shareholders Ownership

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

Changes in Our Capital

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

C. Material Contracts

August 2013 Investment Agreement. On August 19, 2013, we entered into an agreement to issue and sell 3,532,655 ordinary shares of our company, nominal value NIS 0.6 each, to Nistec for $4.2 million. Nistec is controlled by Yitzhak Nissan, who beneficially owns all of the shares owned by Nistec. Also on August 19, 2013, Nistec purchased 1,589,440 of our ordinary shares from Merhav M.N.F. Ltd, which at the time held 24.1% of our outstanding ordinary shares. The total consideration paid by Nistec in the two transactions was $6,500,000. Nistec obtained a portion of those funds from a loan extended by Bank Leumi Le'Israel in the amount of approximately $4,755,165 (based on the exchange rate between the NIS and the dollar published by the Bank of Israel on the date of the transactions), and the shares that Nistec acquired constitute collateral for the loan. As a result of these transactions, Nistec acquired 50.5% of our ordinary shares, which constitute 50.5% of our issued share capital on a fully diluted basis, and Nistec gained control of our company. Several of our directors resigned, and four new directors were nominated and elected, including Yitzhak Nissan, who was elected Chairman of our Board of Directors. We also amended our Articles of Association along with our issuance of the shares to Nistec. Nistec and Yitzhak Nissan have the shared power to vote, dispose of, direct the vote of, and direct the disposition of the 5,122,095 ordinary shares of our company beneficially owned by Nistec.

Registration Rights Agreement. In connection with our investment agreement with Nistec, on August 19, 2013 we entered into a registration rights agreement with Nistec, pursuant to which we agreed to register under the Securities Act of 1933 some or all of the ordinary shares sold to Nistec upon its "demand," at any time after one year following the consummation of the sale. Nistec is entitled to an aggregate of four demand registrations, subject to certain conditions. We also agreed to grant Nistec "piggyback" registration rights that allow it to include its ordinary shares in any public offering of equity securities initiated by us. We may postpone or withdraw the filing or the effectiveness of a piggyback registration at any time in our sole discretion. Under the registration rights agreement, we also agreed to indemnify Nistec against any losses or damages resulting from any untrue statement or omission of material fact in any registration statement or prospectus pursuant to which they sell ordinary shares, unless such liability arose in reliance upon information furnished in writing by Nistec. We will pay all expenses incurred by our company in connection with any such registrations in addition to reasonable fees and disbursements of counsel to Nistec. The selling expenses relating to the ordinary shares owned by Nistec will be borne and paid by Nistec.

Management Agreement. Under the terms of the investment agreement with Nistec and as a condition thereof, and since Nistec has significant experience and skills in the markets in which we operate, on August 19, 2013 we entered into a management agreement with Nistec which became effective as of the closing of the investment agreement. Under the management agreement, Mr. Yitzhak Nissan, the owner of Nistec, will serve as the chairman of our Board of Directors. As such, Mr. Nissan will provide us with the following services: (a) coordination of the activities of our Board of Directors with respect to the development of the long term strategy for our company; (b) guidance to our Board of Directors with respect to the implementation by management of its strategy, work plans and budget, as shall be determined from time to time by our Board of Directors; (c) coordination of the activities of our Board of Directors with respect to the regulation and implementation of proper corporate governance practices; (d) coordination of the activities of our Board of Directors for the purpose of the approval of quarterly and annual financial statements and reports; (e) development and retention of relations with current and future strategic investors; (f) general guidance and management of the activities of our Board of Directors; (g) advancement of our company's efforts with respect to the realization of its business development strategy, including the pursuit of mergers and acquisition opportunities in cooperation with the chief executive officer of our company; (h) coordination of the activities of our Board of Directors with respect to the definition of strategic financial targets and in attaining said targets; and (i) guidance in the optimization and steps to be taken to increase the efficiency of our company's production and operation systems. In consideration for performing the above services, we agreed to pay Nistec a monthly fixed fee of NIS 90,000, plus applicable VAT. Reimbursement of expenses will be subject to our company's policy approved in advance by the Audit Committee and shall not exceed an aggregate amount of NIS 10,000 per calendar quarter. The management agreement will be in force for a term of three years, subject to any applicable law.

Finder's Fee. Also in connection with our investment agreement with Nistec, on August 19, 2013 we agreed to pay a one-time finder's fee of $200,000 (plus applicable VAT) to Merhav, for introducing Nistec to us and facilitating the transaction contemplated by the investment agreement.

## D. Exchange Controls

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. Non-residents of Israel who purchase our ordinary shares will be able to convert dividends, if any, thereon, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, into freely repatriable dollars, at the exchange rate prevailing at the time of conversion, provided that the Israeli income tax has been withheld (or paid) with respect to such amounts or an exemption has been obtained.

E. Taxation

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

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

Israeli Tax Considerations

General Corporate Tax Structure

Israeli companies are generally subject to income tax on their taxable income. The regular corporate tax rate in Israel for 2012 -2013 was 25% and was increased to 26.5% in 2014 and onwards. However, the effective rate of tax payable by a company which is qualified under Israeli law as an “Industrial Company” and/or which derives income from an “approved enterprise” or a “benefited enterprise” (as further discussed below) may be lower. See this Item 10E. “Additional Information – Taxation - Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959.”

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

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

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

Prior to January 1, 2011, the tax laws and regulations dealing with the adjustment of taxable income for local inflation provided that Industrial Enterprises, such as us, were eligible for special rates of depreciation deductions. These rates vary in the case of plant and machinery according to the number of shifts in which the equipment is being operated and generally range from 20% to 40% on a straight-line basis, a 30% to 50% on a declining balance basis for equipment first put into operation on or after June 1, 1989 (instead of the regular rates which are applied on a straight-line basis). The applicable regulations are valid for machinery whose first operation was not later than December 31, 2013.

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

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

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

General

One of our production facilities qualifies as a “benefited enterprise” under the Law for the Encouragement of Capital Investments, 1959, as amended in 2005, or the Investment Law, which provides certain tax benefits to investment programs of an “approved enterprise” or “benefited enterprise.” Our benefited enterprise was converted from a previously approved enterprise program pursuant to the approval of the Israel Tax Authority that we received in September 2006. The period of tax benefits for the benefited enterprise has not yet commenced and will expire no later than 2016 (as further discussed below). We have elected 2012 as the base year for the second benefited period.

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

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

On September 20, 2006, we received a pre-ruling from the Israeli Tax Authority confirming that our most recent investment program will be deemed a “benefited enterprise” instead of its former “approved enterprise” status. Pursuant to such pre-ruling, the former approved enterprise status of that investment plan was terminated by the Investment Center. The benefited enterprise status granted to our investment program provides for a tax exemption on undistributed earnings derived from the program for two years and a reduced tax rate for the remainder of the benefit period (see below). The benefit period with respect to such program has not yet commenced, and will expire no later than 2016. The second benefited period with a respect to such program has not yet commenced, and will expire no later than 2023.

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

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

Tax Benefits

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

Dividends paid out of income derived from an approved enterprise or benefited enterprise (or out of dividends received from a company whose income is derived from an approved enterprise or benefited enterprise) are generally subject to withholding tax at the rate of 15% (deductible at source). The rate of 20% is limited to dividends and distributions out of income derived during the benefits period and actually paid at any time up to 12 years thereafter. A company which elects the alternative benefits track will be subject to corporate tax at the otherwise applicable rate of not more than 25% (or lower in the case of a qualified foreign investor's company which is at least 49% owned by non-Israeli residents) in respect of the gross amount of the dividend if it pays a dividend out of income derived from its approved enterprise or benefited enterprise during the tax exemption period. Dividends paid to a qualifying non-resident out of the profits of a benefited enterprise subject to 11.5% corporate tax are subject to withholding tax at the rate of 4%.

The tax benefits available to a benefited enterprise relate only to taxable income attributable to that specific enterprise and are contingent upon the fulfillment of the conditions stipulated by the Investment Law and its regulations and the terms of the pre-ruling that we received from the Israeli Tax Authority. If we fail to comply with these conditions, the tax and other benefits may be discontinued, in whole or in part, and we might be required to pay the monetary equivalent of the tax benefits we received, plus CPI linkage differences and interest

A company that qualifies as a foreign investor's company is entitled to further tax benefits relating to its benefited enterprises. Subject to certain conditions, a foreign investor company is a company more than 25% of whose share capital (in terms of shares, rights to profits, voting and appointment of directors), and of whose combined share and loan capital, is owned, directly or indirectly, by persons who are not residents of Israel. Such a company with a foreign investment of over 25% will be eligible for an extension of the period of tax benefits for its approved and benefited enterprises (up to a total period of ten years, compared to a normal period of seven years) and further tax benefits (a reduced corporate tax rate of 10%-20%) should the foreign investment reach or exceed 49%. The rate of 15% applicable to dividends is effective for an unlimited period. No assurance can be given that we currently qualify or will qualify in the future as a foreign investor's company.

Amendment to Investment Law

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

In accordance with the amendment and a further amendment made during 2013, a Preferred Enterprise is entitled to a reduced corporate tax rate of 15% with respect to income derived by its Preferred Enterprise in 2011-2012, unless it is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate was reduced to 12.5% and 7%, respectively, in 2013 and was raised to 16% and 9% in 2014 and thereafter, respectively.

Under the amendments, dividends distributed out of income attributed to a Preferred Enterprise are subject to withholding tax at source at the rate of 20% (or lower, under an applicable tax treaty). However, upon the distribution of a dividend to an Israeli company, no withholding tax will be remitted.

The 2010 amendment applies to income generated as of January 1, 2011. Under the transitional provisions of the amendment, we may decide to irrevocably implement the amendment to the Investment Law while waiving benefits provided under the Investment Law as in effect prior to the amendment or to remain subject to the Investment Law as in effect prior to the amendment. We may elect to implement the amendment by May 31 of any year, with regard to that tax year and the following tax years. Electing to implement the amendment is irreversible.

We comply with the conditions provided in the amendment to the Law for the Encouragement of Capital Investments for inclusion in the scope of the tax benefits track. We intend to implement the Amendment in future tax year. Therefore, the deferred tax balance as of December 31, 2013 was calculated based on the rate provided by the Amendment.

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

Taxation Under Inflationary Conditions

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

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

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

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

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

Taxation of Gains Upon Disposition of, and Dividends Paid on, our Ordinary Shares

Taxation of Israeli Resident Shareholders

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

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

Subject to certain transitional provisions relating to capital gains derived from the sale of assets, including our shares, purchased prior to January 1, 2003, the tax rate on capital gains, including capital gain from the sale of securities listed on a stock exchange and on dividends, is generally a uniform rate of 25% for individuals (and 26.5% for corporate bodies) and 30% for substantial individual shareholders (who are, generally, shareholders of 10% or more of the shares of the company on the date of the sale of the shares or at any date during the 12 months before the sale). Dividends paid to an Israeli company by another Israeli company are not subject to tax, unless received out of income derived from a benefited enterprise or stems from income derived or accrued outside of Israel.

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

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

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

If the shares were sold by Israeli residents, then (i) for the period ending December 31, 2002 their sale would be tax exempt so long as (1) the shares were listed on a stock exchange, such as, in our case, the NASDAQ Capital Market, which is recognized by the Israeli Ministry of Finance on December 31, 2002, and (2) we qualified as an Industrial Company or Industrial Holding Company under the law for Encouragement of Industry (Taxes) 1969, at the relevant times as provided by the Income Tax Ordinance [New Version], 1961, which we believe we so qualified and (ii) for the period commencing January 1, 2003, the sale of the shares would be, generally, subject to a 25% tax if sold by non-substantial individual shareholders and corporate bodies and 30% tax if sold by a substantial individual shareholders. We cannot provide any assurance that the Israeli tax authorities will agree with the determination that we qualified as an Industrial Company at the relevant times.

On the distribution of dividends other than bonus shares (stock dividends) to individual Israeli residents shareholders or to non-Israeli shareholders, income tax applies at the rate of 25% or 30%, as described above, but is generally withheld at source at the rate of 20% (for as long as we are listed) or the lower rate payable with respect to dividends received out of income derived from a benefited enterprise (see “Law for the Encouragement of Capital Investments, 1959”), unless a double taxation treaty is in effect between Israel and the shareholder's country of residence which provides for a lower tax rate in Israel on dividends. The Convention between the State of Israel and the Government of the United States relating to relief from double taxation provides for a maximum tax of 25% on dividends paid to a resident of the United States. Dividends paid to an Israeli company by another Israeli company are not subject to corporate tax, unless received out of income derived from a benefited enterprise or unless the dividend stems from income produced or accrued abroad.

Taxation of Non-Israeli Resident Shareholders

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends other than bonus shares or stock dividends, income tax at the rate of 25% or 30% as described above), 12.5% for dividends not generated by a benefited enterprise if the non-resident is a U.S. corporation and holds 10% of our voting power for a designated period, and 15% for dividends generated by a benefited enterprise applies, unless a different rate is provided, based on a treaty between Israel and the shareholder's country of residence. Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a Treaty U.S. Resident will be 25%. However, under the Investment Law, dividends generated by an approved enterprise (which approved plan was approved before January 1, 2014) or benefited enterprise are, generally, taxed at the rate of 15%.

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

Foreign Exchange Regulation and Withholding Taxes

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

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

United States Federal Income Taxation

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares. This description addresses only the U.S. federal income tax considerations that are relevant to U.S. Holders (as defined below) who hold our ordinary shares as capital assets. This summary is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, or the Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively. There can be no assurance that the U.S. Internal Revenue Service, or the IRS, will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our ordinary shares or that such a position would not be sustained. This description does not address all tax considerations that may be relevant with respect to an investment in our ordinary shares. This summary does not account for the specific circumstances of any particular investor, such as:

- broker-dealers,
- financial institutions,
- certain insurance companies,
- regulated investment companies or real estate investment trusts,
- investors liable for alternative minimum tax,
- tax-exempt organizations,
- taxpayers whose functional currency is not the dollar,
- persons who hold the ordinary shares through partnerships or other pass-through entities,
- persons who acquire their ordinary shares through the exercise of employee stock options or otherwise as compensation for services,

- investors who actually or constructively own, or have owned, 10 percent or more of our voting shares, and
- investors holding ordinary shares as part of a straddle, appreciated financial position, a hedging transaction or a conversion transaction.

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

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

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

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

Taxation of Distributions

Subject to the discussion, below, under the heading "—Passive Foreign Investment Companies," the gross amount of any distributions received with respect to our ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. federal income tax purposes to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. Because we do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that the entire amount of any distribution will generally be reported as dividend income to you. Dividends are included in gross income as ordinary income. Distributions in excess of our current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of your tax basis in our ordinary shares and any amount in excess of your tax basis will be treated as capital gain from the sale of ordinary shares. See "—Disposition of Ordinary Shares" below for a discussion of the taxation of capital gains. Our dividends will not qualify for the dividends-received deduction generally available to corporations under section 243 of the Code.

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

NIS and converting NIS into dollars.

Subject to complex limitations, some of which vary depending upon the U.S. Holder's circumstances, any Israeli withholding tax imposed on dividends paid with respect to our ordinary shares will be a foreign income tax that is eligible for credit against a U.S. Holder's U.S. federal income tax liability (or, alternatively, for deduction against U.S. income tax in determining such tax liability). The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific classes of income. Dividends generally are treated as foreign-source passive category income or, in the case of certain U.S. Holders, general category income for purposes of computing the U.S. foreign tax credit. Further, there are special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to a reduced tax rate (see discussion below). A U.S. Holder may be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on our ordinary shares to the extent such U.S. Holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the statute. The U.S. rules relating to the foreign tax credit are complex, and you should consult with your own tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations, "qualified dividend income" received by a non-corporate U.S. Holder will be subject to tax at the lower long-term capital gain rates (currently a maximum of 20%). Distributions taxable as dividends paid on our ordinary shares should qualify for a reduced rate provided that either: (i) we are entitled to benefits under the Treaty or (ii) our ordinary shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Treaty and that our ordinary shares currently are readily tradable on an established securities market in the United States. However, no assurance can be given that our ordinary shares will remain readily tradable. The reduced rate does not apply unless certain holding period requirements are satisfied. With respect to the ordinary shares, the U.S. Holder must have held such shares for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date. The reduced rate also does not apply to dividends received from a passive foreign investment company (see discussion below), in respect of certain hedged positions, or in certain other situations. The legislation enacting the reduced tax rate on qualified dividend income contains special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to the reduced tax rate. U.S. Holders of our ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

Disposition of Ordinary Shares

If you sell or otherwise dispose of our ordinary shares, you will generally recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in our ordinary shares. Subject to the discussion below under the heading "Passive Foreign Investment Companies," such gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. Long-term capital gain realized by a non-corporate U.S. Holder is generally eligible for a preferential tax rate (currently a maximum of 20%). In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

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

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

The U.S. rules relating to foreign currency gains and losses are complex, and you should consult with your tax advisor to determine whether and to what extent you would have to recognize such foreign currency gains or losses.

Passive Foreign Investment Companies

If we were to be classified as a ‘‘passive foreign investment company’’, or a PFIC, in any taxable year, a U.S. Holder would be subject to special rules intended to reduce or eliminate any benefits from the deferral of U.S. federal income tax that a U.S. Holder could otherwise derive from investing in a non-U.S. company that does not distribute all of its earnings on a current basis. We will be treated as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents, annuities and the excess of gains over losses from the disposition of assets that produce passive income. Included in the calculation of our income and assets is our proportionate share of the income and assets of each corporation in which we own, directly or indirectly, at least a 25% interest, by value. If we were determined to be a PFIC for U.S. federal income tax purposes, unfavorable and highly complex rules would apply to you as a U.S. Holder of ordinary shares, whether you own your ordinary shares directly or indirectly. Accordingly, you are urged to consult your own tax advisors regarding the application of such rules.

Based on our current and projected income, assets and activities, we believe that we are not currently a PFIC. However, because the determination of whether we are a PFIC is based upon the composition of our income and assets from time to time, there can be no assurances that we will not become a PFIC in any future taxable year.

If we are treated as a PFIC for any taxable year, dividends on our ordinary shares would not qualify for the reduced tax rate on qualified dividend income, discussed above, and, unless you elect to "mark to market" your ordinary shares, as described below:

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

- the amount allocated to the current taxable year, and to any taxable years in your holding period prior to the first day in which we were treated as a PFIC will be treated as ordinary income in the current year, and

- the amount allocated to each prior taxable year during which we are considered a PFIC would be subject to tax at the highest individual or corporate tax rate, as the case may be, and an interest charge would be imposed with respect to the resulting tax liability allocated to each such year.

If we are a PFIC and any of our non-U.S. subsidiaries is also a PFIC, you will generally be treated as owning a proportionate amount (by value) of the underlying shares of each such subsidiary PFIC.

A U.S. Holder you may make a mark-to-market election only if our ordinary shares are “regularly traded” on a “qualified exchange”. In general, our ordinary shares will be treated as “regularly traded” for a given calendar year if more than a de minimis quantity of our ordinary shares is traded on a qualified exchange on at least 15 days during each calendar quarter of such calendar year. Our ordinary shares are listed on the NASDAQ. However, no assurance can be given that our ordinary shares will be regularly traded for purposes of the mark-to-market election. In addition, because a mark-to-market election cannot be made for a subsidiary PFIC, if you make a mark-to-market election you may continue to be subject to the PFIC rules with respect to your indirect interest in any PFICs we own.

If you elect to mark to market your ordinary shares, you will generally include in income, in each year in which we are considered a PFIC, any excess of the fair market value of your ordinary shares at the close of each tax year over your adjusted basis in the ordinary shares. If the fair market value of the ordinary shares had depreciated below your adjusted basis at the close of the tax year, you may generally deduct the excess of the adjusted basis of the ordinary shares over its fair market value at that time. However, such deductions would generally be limited to the net mark-to-market gains, if any, that you included in income with respect to such ordinary shares in prior years. Your adjusted tax basis in your ordinary shares would be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of ordinary shares with respect to which the mark-to-market election has been made, in a year in which we are classified as a PFIC, would be treated as ordinary income or loss (except that loss on a disposition of ordinary shares is treated as capital loss to the extent the loss exceeds the net mark-to-market gains, if any, that you included in income with respect to such ordinary shares in prior years) And the source of such gain or loss will be U.S.-source for purposes of the foreign tax credit limitation. Gain or loss from the disposition of ordinary shares (as to which a mark-to-market election was made) in a year in which we are no longer classified as a PFIC, would be capital gain or loss.

If you own our ordinary shares during any year in which we are a PFIC, you may be required file an IRS Form 8621 with respect to our company, typically with your federal income tax return for that year. U.S. Holders should consult their own tax advisors regarding whether we are a PFIC and the potential application of the PFIC rules to them, including the application of the mark-to-market election.

Net Investment Income Tax

In addition to the income taxes described above, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to a 3.8% Medicare contribution tax on net investment income, which includes dividends and capital gains.

Backup Withholding and Information Reporting

Payments in respect of our ordinary shares may be subject to information reporting to the IRS and to U.S. backup withholding tax at the rate (currently) of 28%. Backup withholding will not apply, however, if you (i) are a corporation or fall within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification.

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

U.S. individuals that hold certain specified foreign financial assets, including stock in a foreign corporation, with values in excess of certain thresholds are required to file with their U.S. federal income tax return Form 8938, on which information about the assets, including their value, is provided. Taxpayers who fail to file the form when required are subject to penalties. An exemption from reporting applies to foreign assets held through a financial institution. Investors are encouraged to consult with their own tax advisors regarding the possible application of this disclosure requirement to their investment in our ordinary shares.

F. Dividends and Paying Agents

Not applicable.

## G. Statement by Experts

Not applicable.

## H. Documents on Display

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

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

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

The documents concerning our company that are referred to in this annual report may also be inspected at our offices located at Sgoola Industrial Zone, Petach Tikva 4910101, Israel.

## I. Subsidiary Information

Not applicable.

# ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

### Foreign Currency Exchange Risk

Our reporting currency is the dollar. Our revenues are primarily denominated in the dollar and NIS, while our expenses are primarily denominated in NIS, dollars and Euros. As a result, 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. In addition, fluctuations in rates of exchange between NIS and other currencies may affect our operating results and financial condition. 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 2013 than 2012, which had a negative impact on our operating results in 2013. The average exchange rate for the NIS against the dollar was 7.8% higher in 2012 than 2011 and the average exchange rate for the NIS against the Euro was 0.5% lower in 2012 than 2011, which had a positive impact on our operating results in 2012.

We estimate that a devaluation of 1% of the dollar against the NIS would result in a decrease of approximately $200,000 in our operating income.  As of December 31, 2013, we estimate that a devaluation of 1% of the Euro against the NIS would not have a material impact on our operating and financial results.

We have engaged external consultants to assist us to manage our foreign exchange risk.  From time to time in the past we have engaged in hedging transactions in order to partially protect ourselves from currency fluctuation risks and may use hedging instruments from time to time in the future. We have recently encountered difficulties in obtaining lines of credits from our banks to perform hedging transactions in order to protect ourselves from currency fluctuations.  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.

Commodity Price Risk

Cost of raw materials is a significant component of our cost of revenues. In 2013, the cost of raw materials used in production was $16.3, compared to $14.3 million in 2012. A 1% increase or decrease in the cost of raw materials used in production would increase or decrease our cost of raw materials by approximately $160,000.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our short-term credit lines, short-term loans and long-term loans. For information on the interest rates of our short-term credit lines, short-term loans and long-term loans, see Item 5B. "Operating and Financial Review and Prospects - Liquidity and Capital Resources." For purposes of specific risk analysis, we use sensitivity analysis to determine the impact that market risk exposure may have on the financial expenses derived from our short-term credit lines and long-term loans. Based on our loans balance at December 31, 2013, a hypothetical increase of 1% in the interest rates would result in an increase of approximately $50,000 in our financial expenses. A hypothetical increase of 1% in the CPI would not have a material impact on our financial and operational expenses.

Credit Risk

We may be subject to significant concentrations of credit risk consisting principally of cash and cash equivalents and trade accounts receivable. Cash and cash equivalents are deposited with major financial institutions in Israel, Europe and the United States.

We perform ongoing credit evaluations of the financial condition of our customers, if such information is available to us. The risk of collection associated with trade receivables is reduced by the geographical dispersion of our customer base, and our policy of obtaining credit evaluations of the financial condition of certain customers, purchase of insurance for certain receivables, or requiring collateral or security with respect to certain other receivables. However, our business involves selling products to customers for whose credit we do not have full insurance coverage, and we are exposed to risk with respect to our receivables from them.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control over Financial Reporting

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

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of our company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our company are being made only in accordance with authorizations of management and directors of our company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our company's assets that could have a material effect on our financial statements.

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, our management concluded that as of December 31, 2013, our internal control over financial reporting is effective.

Changes in Internal Control over Financial Reporting

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

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Independent Registered Public Accounting Firm Fees

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

| Services Rendered | 2013 | 2012 |
|---|---|---|
| Audit (1) | $ 108,000 | $ 105,000 |
| Audit Related Fees | - | - |
| Tax (2) | $ 5,000 | $ 5,000 |
| Total | $ 113,000 | $ 110,000 |

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

(2) Tax fees relate to services performed regarding tax compliance.

Pre-Approval Policies and Procedures

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

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

Not applicable.

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

Neither we nor any affiliated purchaser has purchased any of our securities during 2013.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

Under NASDAQ Stock Market Rule 5615(a)(3), foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of the NASDAQ Stock Market Rules. A foreign private issuer that elects to follow a home country practice instead of any of such NASDAQ rules 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.

We have notified NASDAQ that we do not comply with the following NASDAQ requirements, and instead follow Israeli law and practice in respect of such requirements:

- The requirement to maintain a majority of independent directors, as defined under the NASDAQ Stock Market Rules. Instead, we follow Israeli law and practice which requires that we appoint at least two external directors, within the meaning of the Israeli Companies Law, to our board of directors. In addition, we have the mandated three independent directors, within the meaning of the rules of the SEC and NASDAQ, on our audit committee. See Item 6C. "Directors, Senior Management and Employees - Board Practices - External and Independent Directors."

- The requirements regarding the directors' nominations process. Under Israeli law and practice our board of directors is authorized to recommend to our shareholders director nominees for election. See Item 6C. – "Directors, Senior Management and Employees - Board Practices - Election of Directors."

- The requirement regarding the quorum for any meeting of shareholders. Instead, we follow Israeli law and practice which provides that, unless otherwise provided by a company's articles of association, the quorum required for a general meeting of shareholders is at least two shareholders present who hold, in the aggregate, 25% of the company's voting rights. Our articles of association provide that the quorum required for a shareholder meeting consists of at least two shareholders present in person or represented by proxy who hold or represent, in the aggregate, at least 33% of the voting rights of the issued share capital. See Item 10A. "Additional Information - Share Capital - Annual and Extraordinary Meetings of Shareholders."

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Consolidated Financial Statements

ITEM 19. EXHIBITS

Index to Exhibits

| Exhibit | Description |
|---|---|
| 1.1 | Memorandum of Association of the Registrant (1) |
| 1.2 | Articles of Association of the Registrant, as amended (2) |
| 2.1 | Specimen of Share Certificate (1) |
| 4.1 | Share Purchase Agreement, dated June 10, 2002, by and among En-Eltek Netherlands 2000 B.V., Kubatronik-Leiterplatten GmbH, Mr. Alois Kubat, Mr. Thomas Kubat and Ms. Heike Heidenreich (4) |
| 4.2 | Extension of Put/Call Option Agreement, dated May 4, 2005, by and between En-Eltek Netherlands 2000 B.V. and Mr. Alois Kubat (5) |
| 4.3 | Second Extension of Put/Call Option Agreement Provisions under the Share Purchase Agreement, dated December 28, 2007, by and between En-Eltek Netherlands 2000 B.V. and Mr. Alois Kubat (6) |
| 4.4 | English Translation of Lease Agreement dated June 26, 2002, by and between the Registrant and A.Z. Baranovitz – Assets and Rental Ltd. (7) |
| 4.5 | Addendum to Lease Agreement dated May 13, 2007, by and between the Registrant and A.Z. Baranovitz – Assets and Rental Ltd. (8) |
| 4.6 | Amendment and Supplement to a Lease Agreement dated June 7, 2002, by and between Kubatronik Leiterplatten GmbH and Ms. Karin Kubat. (9) |
| 4.7 | English Translation of Letter of Extension dated December 18, 2007 to Lease Agreement dated June 7, 2002, by and between Kubatronik Leiterplatten GmbH and Ms. Karin Kubat. (10) |
| 4.8 | Compensation Policy dated November 28, 2013, approved on January 9, 2014. (11) |
| 4.9 | Form of Director and Officer Indemnity Agreement (2) |
| 4.10 | Investment Agreement, dated August 19, 2013, by and between the Registrant and Nistec Ltd. (2) |
| 4.11 | Bank Hapoalim B.M. Agreements: Summary of Economic Terms; Irrevocable Undertakings (12) |
| 4.12 | Israel Discount Bank Ltd. Agreements: Summary of Economic Terms; Irrevocable Undertakings (12) |
| 8.1 | List of Subsidiaries of the Registrant (12) |
| 12.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended. (12) |
| 12.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1924, as amended. (12) |
| 13.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (12) |
| 13.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (12) |

| | |
|---|---|
| 101.INS* | XBRL Instance Document. |
| 101.SCH* | XBRL Taxonomy Extension Schema Document. |
| 101.PRE* | XBRL Taxonomy Presentation Linkbase Document. |
| 101.CAL* | XBRL Taxonomy Calculation Linkbase Document. |
| 101.LAB* | XBRL Taxonomy Label Linkbase Document. |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document. |

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* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

(1) Filed as an exhibit to our registration statement on Form F-1, registration number 333-5770, as amended, and incorporated herein by reference.

(2) Included in Exhibit 99.1 to our Report of Foreign Issuer on Form 6-K filed on September 12, 2013 and incorporated herein by reference.

(3) Filed as Exhibit 4.1 to our Annual Report on Form 20-F for the year ended December 31, 2008 and incorporated herein by reference.

(4) Filed as Exhibit 4.5 to our Annual Report on Form 20-F for the year ended December 31, 2004 and incorporated herein by reference.

(5) Filed as Exhibit 4.6 to our Annual Report on Form 20-F for the year ended December 31, 2004 and incorporated herein by reference.

(6) Filed as Exhibit 4.7 to our Annual Report on Form 20-F for the year ended December 31, 2007 and incorporated herein by reference.

(7) Filed as Exhibit 4.6 to our Annual Report on Form 20-F for the year ended December 31, 2008 and incorporated herein by reference.

(8) Filed as Exhibit 4.7 to our Annual Report on Form 20-F for the year ended December 31, 2008 and incorporated herein by reference.

(9) Filed as Exhibit 4.8 to our Annual Report on Form 20-F for the year ended December 31, 2009 and incorporated herein by reference.

(10) Filed as Exhibit 4.9 to our Annual Report on Form 20-F for the year ended December 31, 2009 and incorporated herein by reference.

(11) Included as Exhibit A to Exhibit 99.1 to our Report of Foreign Issuer on Form 6-K filed on December 5, 2013 and incorporated herein by reference.

(12) Filed herewith.

ELTEK LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2013

Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Eltek Ltd.

We have audited the accompanying consolidated balance sheets of Eltek Ltd. and its Subsidiaries (the "Company") as of December 31, 2013 and 2012 and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

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

April 27, 2014

Eltek Ltd. and its Subsidiaries

Consolidated Balance Sheets

| | Note | December 31 2013 | 2012 |
|---|---|---|---|
| | | $ in thousands | |
| Assets | | | |
| Current assets | | | |
| Cash | 2 | 2,514 | 1,935 |
| Trade accounts receivable, net of allowance for doubtful accounts | | 9,127 | 6,662 |
| Inventories | 3 | 6,109 | 5,244 |
| Prepaid expenses and other current assets | | 605 | 417 |
| | | 18,355 | 14,258 |
| Assets held for employees' severance benefits | 9 | 53 | 47 |
| Fixed assets, net | 4 | 10,108 | 9,075 |
| Deferred tax assets, long-term | 14 | 2,863 | - |
| Goodwill | 5 | 75 | 69 |
| Total assets | | 31,454 | 23,449 |

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

Eltek Ltd. and its Subsidiaries

Consolidated Balance Sheets

| | Note | December 31 2013 | 2012 |
|---|---|---|---|
| | | $ in thousands | |
| Liabilities and shareholders' equity | | | |
| Current liabilities | | | |
| Short-term credit and current maturities of long-term debt | 6 | 1,818 | 5,105 |
| Accounts payable: | | | |
| Trade | | 9,229 | 6,110 |
| Related parties | 16 | - | 1,336 |
| Other current liabilities | 7 | 5,311 | 4,419 |
| | | 16,358 | 16,970 |
| Long-term liabilities | | | |
| Long-term debt, excluding current maturities | 8 | 1,412 | 728 |
| Employees' severance benefits | 9 | 337 | 215 |
| Total long-term liabilities | | 1,749 | 943 |
| Commitments and contingent liabilities | 10 | | |
| Shareholders' equity | 11 | | |
| Ordinary shares, NIS 0.6 par value | | | |
| Authorized 50,000,000 shares, issued and outstanding 10,142,762 shares as of December 31, 2013 and 6,610,107 as of December 31, 2012 | | 1,985 | 1,384 |
| Additional paid-in capital | | 17,270 | 14,328 |
| Cumulative foreign currency translation adjustments | | 3,186 | 2,713 |
| Capital reserves | | 695 | 695 |
| Accumulated deficit | | (9,885 ) | (13,708 ) |
| Total Eltek Ltd. shareholders' equity | | 13,251 | 5,412 |
| Non-controlling interest | | 96 | 124 |
| Total equity | | 13,347 | 5,536 |
| Total liabilities, shareholders' equity and non-controlling interest | | 31,454 | 23,449 |

| | | |
|---|---|---|
| /s/ Arieh Reichart | /s/ Amnon Shemer | /s/ Yitzhak Nissan |
| Arieh Reichart | Amnon Shemer | Yitzhak Nissan |

| | | |
|---|---|---|
| President, Chief Executive Officer | Vice President, Finance and Chief Financial Officer | Chairman of the Board of Directors |

Date: April 27, 2014

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

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Eltek Ltd. and its Subsidiaries

Consolidated Statements of Comprehensive Income

| | Note | Year ended December 31 2013 | 2012 | 2011 |
|---|---|---|---|---|
| | | $ in thousands (except profit per share data) | | |
| Revenues | 12 | 50,235 | 45,646 | 46,830 |
| Cost of revenues | 16B | (42,242) | (37,836) | (38,101) |
| Gross profit | | 7,993 | 7,810 | 8,729 |
| Operating expenses | | | | |
| Selling, general and administrative expenses | | (6,722) | (6,040) | (6,155) |
| Impairment of goodwill | | - | (481) | - |
| Operating profit | | 1,271 | 1,289 | 2,574 |
| Financial expenses, net | 13 | (439) | (543) | (740) |
| Other income (loss), net | | (26) | 2 | 12 |
| Profit before income tax (expense) benefit | | 806 | 748 | 1,846 |
| Income tax (expense) benefit | 14 | 2,975 | (52) | (31) |
| Net profit | | 3,781 | 696 | 1,815 |
| Net (profit) loss attributable to non-controlling interest | | 42 | (6) | 31 |
| Net profit attributable to Eltek Ltd. | | 3,823 | 690 | 1,846 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | | 487 | 78 | (377) |
| Comprehensive income | | 4,268 | 774 | 1,438 |
| Comprehensive loss attributable to non-controlling interest | | (28) | (7) | (44) |
| Comprehensive income attributable to Eltek Ltd. | | 4,296 | 781 | 1,482 |
| Basic and diluted net profit per ordinary share attributable to Eltek Ltd. shareholders | | 0.53 | 0.1 | 0.28 |
| Weighted average number of ordinary shares used to compute basic and diluted net profit per ordinary share attributable | | | | |

| | | | |
|---|---|---|---|
| to Eltek Ltd. shareholders | 7,198,883 | 6,610,107 | 6,610,107 |

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

Eltek Ltd. and its Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

| | Company's shareholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ordinary shares | Amount | Additional Paid-in capital | Accumulated other comprehensive income | Capital reserves | Accumulated deficit | Equity attributed to Eltek Ltd. and Subsidiaries | Non-controlling interest | Total |
| | ($ thousands, except number of shares) | | | | | | | | |
| Balance as of January 1, 2011 | 6,610,107 | 1,384 | 14,328 | 2,986 | 695 | (16,244) | 3,149 | 175 | 3,324 |
| Changes during the year | | | | | | | | | |
| Foreign currency translation adjustments | - | - | - | (364) | - | - | (364) | (13) | (377) |
| Net profit (loss) | - | - | - | - | - | 1,846 | 1,846 | (31) | 1,815 |
| Comprehensive income (loss) | - | - | - | - | - | - | 1,482 | (44) | 1,438 |
| Balance as of December 31, 2011 | 6,610,107 | 1,384 | 14,328 | 2,622 | 695 | (14,398) | 4,631 | 131 | 4,762 |
| Changes during the year | | | | | | | | | |
| Foreign currency translation adjustments | - | - | - | 91 | - | - | 91 | (13) | 78 |
| Net profit | - | - | - | - | - | 690 | 690 | 6 | 696 |
| Comprehensive income ( loss) | - | - | - | - | - | - | 781 | (7) | 774 |
| Balance as of December 31, 2012 | 6,610,107 | 1,384 | 14,328 | 2,713 | 695 | (13,708) | 5,412 | 124 | 5,536 |
| Changes during the year | | | | | | | | | |
| Foreign currency | - | - | - | 473 | - | - | 473 | 14 | 487 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| translation adjustments | | | | | | | | | |
| Net profit (loss) | - | - | - | - | - | 3,823 | 3,823 | (42 ) | 3,781 |
| | | | | | | | | | |
| Comprehensive income (loss) | - | - | - | - | - | - | 4,296 | (28 ) | 4,268 |
| Issuance of shares, net of costs | 3,532,655 | 601 | 2,942 | - | - | - | 3,543 | - | 3,543 |
| | | | | | | | | | |
| Balance as of December 31, 2013 | 10,142,762 | 1,985 | 17,270 | 3,186 | 695 | (9,885 ) | 13,251 | 96 | 13,347 |

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

Eltek Ltd. and its Subsidiaries

Consolidated Statements of Cash Flows

| | Year ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | $ thousands | | |
| Cash flows from operating activities: | | | |
| Net profit | 3,781 | 696 | 1,815 |
| | | | |
| Adjustments to reconcile net profit to net cash flows provided by operating activities: | | | |
| Depreciation and amortization of goodwill | 1,739 | 2,253 | 2,091 |
| Capital loss on disposal of fixed assets, net | 26 | - | - |
| Revaluation of long term loans | 1 | 25 | 58 |
| Increase in deferred tax benefit | (3,012) | - | - |
| Changes in employee severance benefits, net | 217 | 53 | 68 |
| | | | |
| Decrease (increase) in trade receivables | (1,531) | 2,339 | (2,016) |
| Decrease (increase) in other receivables and prepaid expenses | 46 | (58) | (68) |
| Increase in inventories | (451) | (670) | (487) |
| Increase in income tax payable | - | - | 8 |
| Increase (decrease) in trade payables | 655 | (147) | 621 |
| Increase in other liabilities and accrued Expenses | 147 | 281 | 324 |
| | | | |
| Net cash provided by operating activities | 1,618 | 4,772 | 2,414 |
| | | | |
| Cash flows from investing activities: | | | |
| Purchase of fixed assets, net | (950) | (1,234) | (882) |
| | | | |
| Net cash used in investing activities | (950) | (1,234) | (882) |
| | | | |
| Cash flows from financing activities: | | | |
| Decrease in short- term credit | (2,577) | (192) | (802) |
| Repayment of long-term loans | (564) | (1,149) | (1,135) |
| Proceeds from long-term loans | - | - | 474 |
| Proceeds from issuance of shares | 3,543 | - | - |
| Repayment of credit from fixed asset payables | (515) | (1,049) | (539) |
| | | | |
| Net cash used in financing activities | (113) | (2,390) | (2,002) |
| | | | |
| Effect of translation adjustments | 24 | (105) | (151) |
| | | | |
| Net increase (decrease) in cash | 579 | 1,043 | (621) |
| Cash at beginning of the year | 1,935 | 892 | 1,513 |
| | | | |
| Cash at end of the year | 2,514 | 1,935 | 892 |

| | | | |
|---|---|---|---|
| Supplemental cash flow information: | | | |
| Income tax paid | 110 | 43 | 55 |
| Interest paid | 356 | 386 | 480 |
| | | | |
| Non-cash activities: | | | |
| Purchase of fixed assets not yet paid | 514 | 1,212 | 1,377 |

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

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

Note 1 - Organization and Summary of Significant Accounting Policies

A. General

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

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

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

On August 19, 2013, the Parent entered into an agreement to issue and sell 3,532,655 ordinary shares of the Parent, nominal value NIS 0.6 each, to Nistec Ltd. ("Nistec"), a private company organized under the laws of the State of Israel, for $4.2 million. Nistec is controlled by Yitzhak Nissan, who owns all of the shares of Nistec. Also on August 19, 2013, Nistec purchased 1,589,440 of the Parent's ordinary shares from Merhav M.N.F. Ltd. , a company owned by Mr. Yosef Maiman, which at the time held 24.1% of the Parent's outstanding ordinary shares. The total consideration paid by Nistec in the two transactions was $6.5 million, $2.3 directly to Merhav M.N.F Ltd. and $4.2 million to the Parent. Nistec financed a portion of those funds from a loan extended by Bank Leumi Le'Israel, and the shares that Nistec acquired constitute collateral for the loan.

As a result of these transactions, which closed on November 1, 2013, Nistec acquired 50.5% of the Parent's ordinary shares, which constitute 50.5% of the Parent's issued share capital on a fully diluted basis, and Nistec gained control of the Parent.

Kubatronik Leiterplatten GmbH

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

On June 10, 2002, the Parent acquired 76% of the shares of Kubatronik for ˆ 2.6 million ($2.4 million as of the date of acquisition). The acquisition resulted in the recognition of goodwill in the amount of ˆ1.1 million ($1 million as of the date of acquisition) - see Note 5.

The Parent subsequently incurred a goodwill impairment of approximately $1 million and the goodwill balance as of December 31, 2013and 2012 was $75 and $69, respectively.

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

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

A. General (cont'd)

Pursuant to the acquisition agreement, the seller has until December 31, 2014, (at which time the period is automatically extended for additional consecutive two-year periods unless otherwise notified in writing by either party upon at least six months prior notice) the right to require the Parent to purchase ("Put Option"), and the Parent has the right to require the seller to sell to the Parent ("Call Option") the seller's remaining 24% interest in Kubatronik. In May 2012, the seller exercised his option with respect to 3% of his remaining shares of Kubatronik for approximately Euro 69 ($89) for such shares and reduced his share in Kubatronik from 24% to 21%. The exercise price for the seller's 21% interest in Kubatronik under the Put Option is Euro 483 ($665), and the exercise price for the seller's remaining holdings in Kubatronik under the Call Option is Euro 513 ($706). The fair value of the above options is calculated based on the Binomial model. Changes in fair value are recorded in the Consolidated Statement of Comprehensive income. See Note 15.

Eltek USA Inc.

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

Eltek Europe GmbH

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

B. Basis of presentation

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

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

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

All intercompany transactions and balances were eliminated in consolidation.

C. Functional and reporting currency

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

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

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

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

D. Translation of foreign entity operations

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

1. Assets and liabilities are translated according to the exchange rate on the consolidated balance sheet date including goodwill arising from the acquisition of the subsidiary.

2. Income and expense items are translated according to the weighted average exchange rate on a quarterly basis.

3. The resulting exchange rate differences are classified as a separate item in shareholders' equity.

E. Exchange rates and linkage bases

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

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

| | Israeli CPI Points | Exchange rate of one US dollar NIS | Exchange rate of one Euro NIS |
|---|---|---|---|
| For the year ended: | | | |
| December 31, 2013 | 220.20 | 3.471 | 4.7819 |
| December 31, 2012 | 219.80 | 3.733 | 4.9206 |
| December 31, 2011 | 216.26 | 3.821 | 4.9380 |
| | % | % | % |
| Changes during the year ended: | | | |
| December 31, 2013 | 1.8 | (7.02) | (2.82) |
| December 31, 2012 | 1.6 | (2.30) | (0.35) |
| December 31, 2011 | 2.2 | 7.66 | 4.22 |

F. Use of estimates

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

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

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

G. Cash and cash equivalents

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

H. Trade accounts receivable

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

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

The activity in the allowance for doubtful accounts for the three years ended December 31, 2013 is as follows:

| | Year ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | $ thousands | | |
| Opening balance | 95 | 93 | 340 |
| Additions during the year | - | 1 | 14 |
| Write off of allowance | (9) | - | (263) |
| Foreign currency translation adjustments | (4) | 1 | 2 |
| | | | |
| Closing balance | 82 | 95 | 93 |

I. Inventories

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

J. Assets held for employees' severance payments

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

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

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

K. Fixed assets

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

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

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

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

L. Goodwill

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

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

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

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

L. Goodwill (cont'd)

The Company performs its annual impairment review of goodwill at the beginning of the following year, and when a triggering event occurs between annual impairment tests. The Company recorded an impairment loss of $481 in 2012. See note 5. For 2013, the Company performed a qualitative assessment of goodwill and determined that it is not more likely than not that the fair values of its reporting units are less than the carrying amounts. Accordingly, no impairment loss was recorded in 2013. See Note 5.

M. Income taxes

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

N. Revenue recognition

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

O. Earnings per ordinary share

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

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

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

P. Derivative financial instruments

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

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

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

Q. Concentration of credit risk

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

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

R. Commitments and contingencies

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

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

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

S. Fair value measurements

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

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

See Note 15.

T. 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. The Company does not expect the provisions of this ASU to have a material effect on the financial statements.

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

Note 2 - Cash and Cash Equivalents

| | December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Denominated in U.S. dollars | 886 | 431 |
| Denominated in NIS | 1,304 | 872 |
| Denominated in Euro | 324 | 632 |
| | 2,514 | 1,935 |

Note 3 - Inventories

| | December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Raw materials | 2,168 | 2,078 |
| Work-in-process | 2,616 | 2,270 |
| Finished products | 1,325 | 896 |
| | 6,109 | 5,244 |

Note 4 - Fixed Assets, Net

| | December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Machinery and equipment | 40,347 | 36,424 |
| Leasehold improvements | 9,321 | 8,558 |
| Motor vehicles | 114 | 102 |
| Office furniture and equipment | 1,653 | 1,530 |
| Fixed assets | 51,435 | 46,614 |
| Accumulated depreciation | (41,327 ) | (37,539 ) |
| Fixed assets less accumulated depreciation | 10,108 | 9,075 |

Depreciation expense for the years ended December 31, 2013, 2012 and 2011 were $1,739, $1,772 and $2,091 respectively.

Eltek Ltd. and its Subsidiaries

Notes to the Consolidated Financial Statements

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

Note 5 - Goodwill

Changes in the carrying amount of goodwill for the years ended December 31, 2013 and 2012 are as follows:

| | December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Balance at the beginning of the year | 69 | 518 |
| Increase due to increase in holding | - | 20 |
| Impairment on goodwill | - | (481 ) |
| Effect of translation adjustments | 6 | 12 |
| | | |
| | 75 | 69 |

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

Banks

| | Annual interest rate at December 31 2013 | December 31 | |
|---|---|---|---|
| | % | 2013 | 2012 |
| In NIS (linked to the Prime rate) | 5.75 - 6.75 | 1,469 | 3,774 |
| In U.S. dollars | 3.81 - 4.41 | 110 | 110 |
| Current maturities of long-term debt from banks (Note 8) | | 239 | 1,221 |
| | | | |
| | | 1,818 | 5,105 |

Note 7 – Other Current Liabilities

| | December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Accrued payroll and related benefits | 1,134 | 1,177 |
| Provision for vacation and other employee benefits | 1,973 | 1,642 |
| Net written put option (Note 1A) | 554 | 497 |
| Accrued expenses | 812 | 859 |
| Employees' severance benefits (Note 9D) | 115 | - |
| Provision for contingent liabilities (Note 10D) | 202 | - |
| Other liabilities | 521 | 244 |

| | | |
|---|---|---|
| | 5,311 | 4,419 |

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

Note 8 - Long-term Debt, Excluding Current Maturities

Banks and others

| | Annual interest rate at December 31 2013 % | December 31 2013 | 2012 |
|---|---|---|---|
| Linkage terms | | | |
| U.S. dollar | 5.89 - 8.56 | 615 | 1,133 |
| NIS - not linked | 6 | 225 | - |
| Euro | 2.17 - 3.86 | 454 | 95 |
| NIS - linked to the Prime rate | P+0.9 | 68 | 980 |
| U.S. dollar linked to Libor | 4-4.5 | 720 | - |
| | | 2,082 | 2,208 |
| Less - current maturities (banks and others) | | (670 ) | (1,480 ) |
| | | 1,412 | 728 |

Minimum future payments at December 31, 2013 due under the long-term debt is as follows:

| | Long-term Loan |
|---|---|
| First year | 670 |
| Second year | 545 |
| Third year and thereafter | 867 |
| | 2,082 |

Long-term debt (excluding current maturities) includes capital leases in the amounts of $892 and $650 for the years ended December 31, 2013 and 2012, respectively.

For the year ended December 31, 2013 and onward, the Company's banks require the Company to maintain certain financial covenants. In April 2014, the Company signed a new financial undertakings letter, effective for the financial statements for the year ended December 31, 2013 and onward, pursuant to which it is required to maintain: (i) adjusted shareholders' equity equal to the greater of $4.5 million or 17% of its 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, 2013, the Company was in compliance with such covenants.

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

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

Financial covenants in respect of the Company's credit facilities and long-term debt with another bank require the Company to maintain the greater of shareholders' equity, excluding certain intangible assets and prepaid expenses (except insurance premiums), of NIS 10 million ($2.6 million), or 11% of the Parent's total assets (on a non-consolidated basis). As of December 31, 2013, the Company was in compliance with such covenants.

As part of the Company's discussions with the banks for obtaining new lines of credits, the financial covenants may be amended.

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

Note 9 - Employee Severance Benefits

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

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

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

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

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

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

Note 9 - Employee Severance Benefits (cont'd)

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

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

D. Total liability for employees' severance benefits as at December 31, 2013 amounted to $ 452 thousand. The current portion amounting to $115 thousand is recorded in the short-term liabilities.

Expenses recorded in respect of the unfunded liability for employee severance payments for the years ended December 31, 2013, 2012, and 2011 are $231, $57 and $102, respectively.

Note 10 - Commitments and Contingent Liabilities

A. Pledges

1. The Company has pledged certain items of its equipment and the rights to any insurance claims on such items to secure its indebtedness with banks, as well as floating liens on all of its remaining assets in favor of the banks.

2. The Company has pledged certain items of its equipment as a guarantee for the implementation of its benefited enterprise. The Company has determined that it is in compliance with the conditions of the approval (see Note 14A).

3. The Company has also pledged machines to secure its indebtedness to certain suppliers that provided financing to such equipment.

B. Operating leases and other agreements

1. The premises occupied by the Parent and Kubatronik are leased under two operating agreements that expire in February 2017 and June 2015, respectively.

2. The Parent has signed several lease and maintenance agreements for production equipment with suppliers of equipment and software. Of such agreements, the main principal agreement expires in June 2017.

3. Several production machines are leased by Kubatronik under operating agreements which will expire in June 2017.

4. The Parent's motor vehicles are leased under operating lease agreements, mainly for three-year terms.

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

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

B. Operating leases and other agreements (cont’d)

5. Minimum future payments at December 31, 2013 due under the above agreements over the next five years and thereafter are as follows:

| | Premises leases | Other agreements |
|---|---|---|
| First year | 1,152 | 663 |
| Second year | 1,099 | 424 |
| Third year | 1,046 | 277 |
| Fourth year | 288 | 115 |
| Fifth year and thereafter | 187 | - |
| | | |
| | 3,772 | 1,479 |

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

Expenses recorded under these agreements for the years ended December 31, 2013, 2012, and 2011 were $ 1,471, $1,183, and $1,519, respectively.

C. Indemnification agreement

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

The Israeli Companies Law provides that an Israeli company cannot exculpate an officer from liability with respect to a breach of his or her duty of loyalty. If permitted by its articles of association, a company may exculpate in advance an officer from his or her liability to the company, in whole or in part, with respect to a breach of his or her duty of care. However, a company may not exculpate in advance a director from his or her liability to the company with respect to a breach of his duty of care with respect to distributions.

The Company’s articles of association allow it to exculpate any officer from his or her liability for breach of duty of care, to the maximum extent permitted by law, before or after the occurrence giving rise to such liability. The Company provided an exemption letter to each of our directors and officers, and agreed to provide the same to future officers.

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

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

D. Contingent Liabilities

Environmental Related Matters

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

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

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

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

D. Contingent Liabilities (cont'd)

On January 1, 2014, the Parent received a notice dated December 31, 2013, from Meitav, the water company of the Petach Tikva municipality, requesting payment of fees totaling NIS 962 ($273) (plus applicable V.A.T.), for alleged discharges of "forbidden" industrial wastewater into the municipal sewage system, on the basis of three samplings conducted by Meitav on Eltek's premises during 2013. These samplings covered water consumption of 35,000 cubic meters of water out of 55,000 cubic meters consumed in 2013, thus the Parent may be subject to a potential payment request of approximately NIS 500 ($142). The Parent is currently reviewing and assessing the demand of payment. Based on current information, the Parent disputes the method of samplings conducted (Grab Samplings instead of Complex Samplings) and the location the samples were retrieved from. The Parent will also examine the legitimacy of Meitav's Wastewater Monitoring Plan and the legality of its execution. The Parent also believes that the new suggested Water and Sewage Corporations Rules (discharge of Industrial Wastewater into the Sewage System), 5774 - 2013 draft, published by the Water Authority, supports its argument as to the method of samplings conducted on its premises. The Parent will also exercise its right of hearing and intends to appeal, if necessary, to the proper forum. In addition, one of the remedies requested in a petition held in the Israeli Supreme Court of Justice filed by the Manufacturers Association of Israel against the Water Authority, is a cancelation of all pending demands of payment. At the same time, the Parent is involved in discussion with Meitav, presenting its plans to invest in its Wastewater Treatment Facility, in order to eliminate the demand for payment. Management believes that the Parent has good arguments against such demand for payment and believes that the Parent will not be liable to pay to Meitav any additional amounts beyond the amounts provided for in these financial statements.

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

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

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

D. Contingent Liabilities (cont'd)

Employee Related Matters

Two lawsuits have been filed in May 2008 and in March 2012 against the Parent by two employees alleging that they had suffered personal injuries during their employment with the Parent and are seeking aggregate financial compensation of approximately $180 for past damages and additional amounts for future lost income, pain and suffering as the court may determine.

In addition, five other employees notified the Parent between January 2011 and July 2013 that they allegedly suffered personal injuries during their employment with the Parent. Of these four employees, one is seeking compensation of $170 and the others did not state their claim amount. The Parent submitted the claims to its insurance company, which informed the Parent that it is reviewing the statements of claim without prejudicing its rights to deny coverage.

Note 11 - Shareholders' Equity

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

| | Authorized | Issued and outstanding | |
|---|---|---|---|
| | December 31 2012 and 2013 | December 31 2013 | December 31 2012 |
| Number of shares: | | | |
| Ordinary shares of par value NIS 0.6 each | 50,000,000 | 10,142,762 | 6,610,107 |
| | | | |
| Amount in US$ | | | |
| Ordinary shares of par value NIS 0.6 each | | 1,985,280 | 1,384,318 |

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

Note 12 - Revenues

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

| | Year ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Customer A - Sales of manufactured products | 18.4 % | 17.2 % | 14.9 % |

B. Revenues by geographic areas

| | Year ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Israel | 27,992 | 21,965 | 22,866 |
| Europe | 10,623 | 11,583 | 13,400 |
| North America | 6,227 | 7,664 | 5,400 |
| Rest of the world | 5,393 | 4,434 | 5,164 |
| | 50,235 | 45,646 | 46,830 |

C. Fixed assets, net by geographic areas

| | Year ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Israel | 9,534 | 8,617 | 7,233 |
| Europe | 561 | 445 | 503 |
| North America | 13 | 13 | 10 |
| | 10,108 | 9,075 | 7,746 |

Note 13 - Financial Expenses, Net

| | Year ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Interest and exchange rate expenses on long-term loans | 106 | 126 | 166 |
| Expenses on short-term credit and bank charges | 284 | 281 | 464 |
| Effect of exchange rate differences on other expenses and net loss from derivative instruments | 19 | 137 | 110 |
| Other financing expenses (income), net | 30 | (1 ) | - |
| | 439 | 543 | 740 |

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

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

Note 14 - Taxes on Income

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

1. Beneficiary enterprise

The Parent has production facilities in Israel qualified as “Beneficiary Enterprises” in accordance with the Law, as amended in 2005, which provides certain tax benefits to investment programs of an “Approved Enterprise” or “Beneficiary Enterprise.” The Parent’s first Beneficiary Enterprise was converted from a previously “Approved Enterprise” program pursuant to the approval of the Israel Tax Authority that the Parent received in September 2006. In the past certain of the Parent’s production facilities were granted approved enterprise status pursuant to the Law; however, the benefit periods for such approved enterprises expired in 2005. Additionally, the Parent has elected 2012 as the year of election.

The income generated by the “Beneficiary Enterprise” is exempt from tax over a period of two years, beginning with the year in which the Parent first had taxable income. The period of tax benefit of the first Beneficiary Enterprise has not yet commenced and will expire not later than 2016. The period of tax benefit of the second beneficiary enterprise has not yet commenced and will expire not later than 2023. The benefits are contingent upon compliance with the terms of the Encouragement Law (export rate, etc.). The Parent is currently in compliance with these terms.

A company having a Beneficiary Enterprise that distributes a dividend from exempt income, will be required in the tax year of the dividend distribution to pay company tax on the amount of the dividend distributed (including the company tax required as a result of the distribution) at the tax rate that would have been applicable to it in the year the income was produced if it had not been exempt from tax. The Parent did not have exempt income from the above "Beneficiary Enterprise".

2. Amendment to the Law

On December 29, 2010 the Knesset approved the Economic Policy Law for 2011-2012, which includes an amendment to the Law for the Encouragement of Capital Investments – 1959 (hereinafter – “the Amendment”). The Amendment is effective from January 1, 2011 and its provisions apply to preferred income derived or accrued in 2011 and thereafter by a preferred company, per the definition of these terms in the Amendment.

Companies can choose not to be included in the scope of the amendment to the Encouragement Law and to stay in the scope of the law before its amendment until the end of the benefits period of its approved/beneficiary enterprise. The 2012 tax year was the last year companies could have chosen as the year of election, providing that the minimum qualifying investment began in 2010.

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

Note 14 - Taxes on Income (cont’d)

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

2. Amendment to the Law (cont’d)

The Amendment provides that only companies in Development Area A will be entitled to the grants track and that they will be entitled to receive benefits under this track and under the tax benefits track at the same time. In addition, the existing tax benefit tracks were eliminated (the tax exempt track, the “Ireland” track and the “Strategic” track) and two new tax tracks were introduced in their place, a preferred enterprise and a special preferred enterprise, which mainly provide a uniform and reduced tax rate for all the company’s income entitled to benefits, such as: for a preferred enterprise – in the 2011-2012 tax years – a tax rate of 10% for Development Area A and of 15% for the rest of the country, in the 2013-2014 tax years – a tax rate of 7% for Development Area A and of 12.5% for the rest of the country, and as from the 2015 tax year – 6% for Development Area A and 12% for the rest of the country. On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, which cancelled the planned tax reduction so that as from the 2014 tax year the tax rate on preferred income will be 9% for Development Area A and 16% for the rest of the country.

The Amendment also provides that no income tax will apply to a dividend distributed out of preferred income to a shareholder that is a company, for both the distributing company and the shareholder. A tax rate of 15% shall apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties. The Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013 raised to 20% the tax rate on a dividend distributed to an individual and foreign resident out of preferred income as from January 1, 2014.

Furthermore, the Amendment provides relief with respect to the non-payment of tax on a dividend received by an Israeli company from profits of an approved/alternative/beneficiary enterprise that accrued in the benefits period according to the version of the law before its amendment, if the company distributing the dividend notifies the tax authorities by June 30, 2015 that it is applying the provisions of the Amendment and the dividend is distributed after the date of the notice (hereinafter – “the relief”). Furthermore, a distribution from profits of the exempt enterprise will be subject to tax by the distributing company.

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

Note 14 - Taxes on Income (cont'd)

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

2. Amendment to the Law (cont'd)

The Parent complies with the conditions provided in the amendment to the Law for the Encouragement of Capital Investments for inclusion in the scope of the tax benefits track. The Parent intends to implement the Amendment in future tax years. Therefore, the deferred tax balance as of December 31, 2013 was calculated based on the rate provided by the Amendment.

B. Corporate tax rate

Presented hereunder are the tax rates relevant to the Parent in the years 2011-2013:

2011 – 24%
2012 – 25%
2013 – 25%

On August 5, 2013,the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, by which, inter alia, the corporate tax rate would be raised by 1.5% to a rate of 26.5% as from 2014.

Current taxes for the reported periods are calculated according to the tax rates presented above.

C. Tax losses and tax credits carryforwards

As of December 31, 2013, the Parent's tax loss carryforwards were approximately $15.9 million operating losses and $4.4 million capital losses and Kubatronik's tax loss carryforwards were Euro 840 ($1.2 million) for corporate tax and Euro 775 ($1.1 million) for municipal corporate tax. Additionally, the Parent's tax credits carryforward was $952.

The Parent's tax loss carryforward and tax credits carryforward do not have expiration dates. Kubatronik's tax loss carryforward may be subject to restrictions if a change of control in Kubatronik occurs.

D. Income tax assessments

The Parent files its income tax return in Israel, Kubatronik and Eltek Europe file their income tax returns in Germany and Eltek USA files its income tax return in the United States.

In Israel, the Parent has received final tax assessments through the 1995 tax year. Assessments through the 2008 tax year are considered final due to statute of limitations. The Israeli tax returns of the Parent may be audited by the Israeli Tax Authorities for the tax years beginning in 2009.

Kubatronik and Eltek Europe have received final tax assessments through the 2010 tax year. The tax returns of Kubatronik and Eltek Europe remain subject to audit for the tax years beginning in 2011. The tax returns of Eltek USA remain subject to audit for the tax years beginning in 2009.

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

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

Note 14 - Taxes on Income (cont'd)

E. Profit before tax and income tax expense (benefit) included in the consolidated statements of comprehensive income

| | Year ended December 31 2013 | Year ended December 31 2012 | Year ended December 31 2011 |
|---|---|---|---|
| Profit before income tax expense: | | | |
| Israel | 782 | 495 | 1,867 |
| Foreign jurisdictions | 24 | 253 | (21 ) |
| | 806 | 748 | 1,846 |
| Current tax expense (benefit): | | | |
| Israel | (41 ) | - | - |
| Foreign jurisdictions | 78 | 52 | 31 |
| | 37 | 52 | 31 |
| Deferred taxes: | | | |
| Israel | (3,079 ) | - | - |
| Foreign jurisdictions | 67 | - | - |
| | (3,012 ) | - | - |
| Income tax expense (benefit) | (2,975 ) | 52 | 31 |

The deferred tax assets utilized in 2012 and 2011 were $1.1 million and $2.7 million respectively.

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

Note 14 - Taxes on Income (cont'd)

F. Reconciliation of the theoretical income tax expense (benefit) to the actual income tax expense

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

| | Year ended December 31 2013 | Year ended December 31 2012 | Year ended December 31 2011 |
|---|---|---|---|
| Profit before income tax expense (benefit) as reported in the consolidated statements of comprehensive income | 806 | 748 | 1,846 |
| | | | |
| Statutory tax rates | 25 % | 25 % | 24 % |
| Theoretical tax expense calculated | 202 | 187 | 443 |
| | | | |
| Other | (118) | 15 | 14 |
| Changed in liability for undistributed income of subsidiaries | 132 | - | - |
| Change in valuation allowance | (2,540) | 1,095 | (492) |
| Loss on investment in subsidiaries | - | (1,098) | - |
| Adjustment to net loss carryforward | 142 | | |
| Change in effective corporate tax rates | (757) | - | 287 |
| Tax benefit arising from “Beneficiating and Preferred enterprises” (*) | (70) | (146) | (229) |
| Foreign tax rate differential in subsidiaries | 34 | (1) | 8 |
| | | | |
| Total | (3,177) | (135) | (412) |
| | | | |
| Income tax expense (benefit) | (2,975) | 52 | 31 |

(*) Net earnings per share – amounts of the benefit resulting from the Approved and Preferred Enterprises: 2013- $0.01, 2012- $0.02, 2011- $0.03

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

Note 14 - Taxes on Income (cont'd)

G. Deferred tax assets and liabilities

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

| | December 31 2013 | December 31 2012 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards (in Israel) | 2,543 | 1,865 |
| Net operating loss carryforwards (outside Israel) | 343 | 485 |
| Capital loss carryforwards (in Israel) | 1,252 | 1,098 |
| Severance benefits | 32 | 8 |
| Provision for vacation pay | 280 | 174 |
| Tax credit carryforward | 952 | 840 |
| Allowance for doubtful accounts | 13 | 11 |
| Total gross deferred tax assets | 5,415 | 4,481 |
| Less valuation allowance | (1,595) | (4,135) |
| Net deferred tax assets | 3,820 | 346 |
| Deferred tax liabilities: | | |
| Undistributed income of subsidiaries | (134) | - |
| Fixed assets - differences in depreciation | (635) | (346) |
| Total gross deferred tax liabilities | (769) | (346) |
| Net deferred tax assets | 3,051 | - |
| Deferred tax assets, short-term (in other current assets) | 188 | - |
| Deferred tax assets, long-term | 2,863 | - |

Despite the Company's accumulated profits in Israel during the years ended December 31, 2012 and 2011, the Company recorded a full valuation allowance for deferred tax assets with respect to its deferred tax assets in Israel due to uncertainty about its ability to utilize such losses in the future.

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

Note 14 - Taxes on Income (cont'd)

G. Deferred tax assets and liabilities (cont’d)

During the year, the Parent determined that the deferred tax assets were more likely than not to be realized in future years, based on three years of consistent profits. Accordingly, the Company 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. The valuation allowance for deferred tax assets as of December 31, 2013 and 2012, was $1,595 and $4,135 respectively. The net change in the total valuation allowance for each of the years ended December 31, 2013, 2012 and 2011, was an increase (decrease) of $(2,540), $ 1,095 and $(492), respectively.

Certain comparative figures in note 14F and 14G have been changed to reflect changes in the deferred tax assets and liabilities and related valuation allowance.

H. Accounting for uncertainty in income taxes

For the twelve-month periods ended December 31, 2013, 2012 and 2011, the Company did not have any unrecognized tax benefits and thus, no interest and penalties related to unrecognized tax benefits were recognized. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next twelve months.

Note 15 - Financial Instruments and Risk Management

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

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

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

The following table presents the Company’s assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 and 2012, aggregated by the level in the fair-value hierarchy within which those measurements fall:

| | December 31, 2013 Carrying Amount | December 31, 2013 Fair value | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|---|
| Liabilities : | | | | | |
| Long-term debt | 788 | 704 | - | 704 | - |
| Net written put option | 554 | 554 | - | - | 554 |
| Total | 1,342 | 1,258 | - | 704 | 554 |

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

In addition to the above, the Company's financial instruments at December 31, 2013 and 2012, consisted of cash and cash equivalents, bank deposits, trade and other accounts receivable, other current assets, short-term credit provided by financial institutions, and trade and other payables. The carrying amounts of all the aforementioned financial instruments, at face value or cost plus accrued interest, approximate fair value due to the short maturity of these instruments.

The changes in the Company's liabilities measured at fair value using significant unobservable inputs (Level 3), during the years ended December 31, 2013 and 2012 were changes in the fair value of the net written put option charged to financial expense in the Consolidated Statement of Comprehensive Income of $35 and $135, respectively, and translation adjustments included in financial income in the Consolidated Statement of Comprehensive Income $(15) and $9, respectively.

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

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

Note 16 - Related Party Balances and Transactions

The Company carries out transactions with related parties as detailed below. Until November 2013, the Company's principal shareholder was also the principal shareholder of an affiliated supplier.

One of the Company's customers, Nistec, became a related party in November 2013. The Company sells products to Nistec and pays management fees to Nistec.

The Company's transactions with its related parties were carried out on an arm's-length basis.

A. Balances with related parties

| | December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Trade accounts receivable | 26 | - |
| Trade accounts payable | - | 1,336 |

B. Transactions with related parties

| | Year ended December 31 | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Cost of revenues (*) | 3,402 | 3,287 | 2,674 |
| Selling, general and administrative expenses | 52 | - | - |

(*) The Company's purchases from such supplier accounted for 23.1%, 24.5% and 18.4% of its raw material costs in 2013, 2012 and 2011, respectively.

SIGNATURES

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

ELTEK LTD.

| | |
|---|---|
| By: | /s/ Arieh Reichart |
| Name: | Arieh Reichart |
| Title: | President and Chief Executive Officer |
| | |
| By: | /s/ Amnon Shemer |
| Name: | Amnon Shemer |
| Title: | Vice President, Finance and Chief Financial Officer |

Dated: April 29, 2014