

LAPIS TECHNOLOGIES INC  
Form S-1/A  
February 08, 2013

As filed with the Securities and Exchange Commission on February 8, 2013

Registration No. 333- 185470

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

AMENDMENT NO. 1

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TO  
FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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LAPIS TECHNOLOGIES, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	3670 (Primary Standard Industrial Classification Code Number)	27-0016420 (I.R.S. Employer Identification Number)
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Lapis Technologies, Inc.  
70 Kinderkamack Road  
Emerson, New Jersey 07630  
201-225-0190

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

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David Lucatz  
President and Chief Executive Officer  
Lapis Technologies, Inc.  
70 Kinderkamack Road  
Emerson, New Jersey 07630  
201-225-0190

(Name, Address Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after the effective date of this registration statement

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

**CALCULATION OF REGISTRATION FEE**

Title of each class of securities to be registered	Proposed maximum aggregate offering price(1)	Amount of registration fee
Common stock, par value \$0.001 per share(2)(3)	\$ 10,000,000	\$ 1,364.00
Representative’s common stock purchase warrants(4)	--	--
Common stock underlying Representative’s warrants (2)(5)	\$ 625,000	\$ 85.25
<b>TOTAL</b>	<b>\$ 10,625,000</b>	<b>\$ 1,449.25 (6)</b>

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended.

(2) Pursuant to Rule 416, the securities being registered hereunder include such indeterminate number of additional securities as may be issued after the date hereof as a result of stock splits, stock dividends or similar transactions.

(3) Includes shares of common stock which may be issued upon exercise of a 45-day option granted to the underwriters to cover over-allotments, if any.

(4) In accordance with Rule 457(g) under the Securities Act, because the shares of the Registrant’s common stock underlying the Representative’s warrants are registered hereby, no separate registration fee is required with respect to the warrants registered hereby.

(5) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(g) under the Securities Act. The warrants are exercisable at a per share exercise price equal to 125% of the public offering price. As estimated solely for the purpose of recalculating the registration fee pursuant to Rule 457(g) under the Securities Act, the proposed maximum aggregate offering price of the Representative’s warrants is \$625,000, which is equal to 125% of \$500,000 (5% of \$10,000,000).

(6) Of this amount, \$1,449.25 was previously paid with the initial filing on December 14, 2012.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY  
PROSPECTUS

SUBJECT TO  
COMPLETION

DATED FEBRUARY 8,  
2013

\$10,000,000 of Shares  
Common Stock

This is a public offering of shares of common stock of Lapis Technologies, Inc.

We are offering \_\_\_\_\_ shares of our common stock, \$0.001 par value per share. We expect to effect a reverse split on a \_\_\_-for-\_\_\_ basis prior to the date of this prospectus.

Our common stock is presently quoted on OTCQB, a quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter equity securities, under the symbol "LPST". We have applied to list our common stock on The NASDAQ Capital Market under the symbol "LPST". On February \_\_\_, 2013, the last reported sale price for our common stock on the OTCQB was \$\_\_\_\_\_per share.

Investing in our shares of common stock involves a high degree of risk. See "Risk Factors" beginning on page 7 of this prospectus for a discussion of information that should be considered in connection with an investment in our common stock.

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

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions(1)	\$	\$
Proceeds to us, before expenses	\$	\$

(1)The underwriters will receive compensation in addition to the underwriting discounts and commissions. See "Underwriting" for a description of compensation payable to the underwriters.

We have granted the underwriters a 45-day option, exercisable by the underwriters in full or in part at any time and from time to time, to purchase up to \_\_\_\_\_ additional shares of common stock solely to cover over-allotments, if any. If the underwriters exercise the option in full, the total discounts and commissions will be \$\_\_\_\_\_, and the total proceeds, before expenses, to us will be \$\_\_\_\_\_.

The underwriters expect to deliver our securities to investors in this offering on or about \_\_\_\_\_, 2013.



Aegis Capital Corp

The date of this prospectus is \_\_\_\_\_, 2013

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Micronet Series CE500 rugged mobile tablet computer

Cabin-mounted Micronet rugged mobile tablet computer

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not, and the underwriters are not, making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

For investors outside the United States: Neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

We obtained statistical data, market data and other industry data and forecasts used throughout this prospectus from market research, publicly available information and industry publications. While we believe that the statistical data, industry data and forecasts and market research are reliable, we have not independently verified the data, and we do not make any representation as to the accuracy of the information.



## PROSPECTUS SUMMARY

This summary highlights material information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making an investment decision. We urge you to read this entire prospectus carefully, including the “Risk Factors” section and condensed consolidated financial statements and related notes appearing elsewhere in this prospectus, before making an investment decision. Unless the context provides otherwise, all references in this prospectus to “Lapis,” “we,” “us,” “our,” the “Company,” the “Registrant” or similar terms, refer to Lapis Technologies, Inc. Unless otherwise noted, (1) all references to “dollars” or “\$” are to United States dollars and all references to “NIS” are to New Israeli shekels and (2) all of the information provided on a pro forma basis assumes completion of our acquisition of Micronet on January 1, 2011.

Lapis Technologies, Inc.

### Our Business

We are a Delaware corporation that was formed on January 31, 2002. We operate through two Israel-based companies, Enertec Systems 2001 Ltd, or Enertec, our wholly-owned subsidiary, and Micronet Ltd, or Micronet, in which we have a controlling interest, which develop, manufacture, integrate and globally market rugged computers, tablets and computer-based systems and instruments for the commercial, defense and aerospace markets. Our products, solutions and services are designed to perform in severe environments and battlefield conditions.

Micronet operates in the growing commercial Mobile Resource Management, or MRM market. Micronet designs, develops, manufactures and sells rugged mobile computing devices that provide fleet operators and field workforces with computing solutions in challenging work environments. Micronet’s vehicle cabin installed and portable tablets increase workforce productivity and enhance corporate efficiency by offering computing power and communication capabilities that provide fleet operators with visibility into vehicle location, fuel usage, speed and mileage. Micronet’s customers consist primarily of application service providers, or ASPs, and solution providers specializing in the MRM market. Currently, Micronet does not sell to end-users. Its customers are generally MRM solution and service providers, such as Trimble Navigation Limited, or Trimble, primarily through its subsidiary PeopleNet Communications Corp., or PeopleNet, and XRS Corporation. These companies sell Micronet’s products as part of their MRM systems and solutions. Micronet has customers in 20 countries. The United States currently constitutes its largest market, representing approximately 84% of revenue for the year ended December 31, 2011 and 94% for the nine months ended September 30, 2012. For the year ended December 31, 2011, Micronet’s largest customer was PeopleNet, which represented approximately 39% of its revenues. The next largest customer represented approximately 16% of its revenues. For the nine months ended September 30, 2012, Trimble and PeopleNet combined represented approximately 73% of Micronet’s revenues. In the nine months ended September 30, 2012 no other customer accounted for more than 9% of Micronet’s revenue. We acquired control of Micronet in September 2012 and until January 21, 2013 we owned 50.1% of Micronet. On January 21, 2013, each of Micronet’s Chairman of the board of directors and Chief Executive Officer exercised certain options to purchase Micronet ordinary shares. As a result, our ownership of Micronet shares was diluted from 50.1% to 48.06%. We are currently considering exercising certain options we own to buy additional Micronet ordinary shares and increase our percentage ownership of Micronet to 50.1%.

Enertec operates in the Defense and Aerospace markets and designs, develops, manufactures and supplies various customized military computer-based systems, simulators, automatic test equipment and electronic instruments.

Enertec's solutions and systems are designed according to major aerospace integrators' requirements and are integrated by them into critical systems such as command and control, missile fire control, maintenance of military aircraft and missiles for use by the Israeli Air Force and Navy and by foreign defense entities.

Approximately 65% of our revenues for the year ended December 31, 2011 were from independent business units or groups within Israeli Aerospace Industries Ltd., or IAI, the leading Israeli defense system integrator and approximately 26% were from business units of Rafael Advanced Defense Systems Ltd., or Rafael, another Israeli state-owned major defense developer and integrator of critical weapon systems. For the nine months ended September 30, 2012, IAI represented approximately 79% and Rafael represented approximately 12% of Enertec's revenues, respectively. These distinct units and groups create diversity to our business and revenue streams. The system integrators that are our primary customers market their solutions throughout the world and across the full spectrum of military applications (land, sea, air). Command and fire control systems represented approximately 74% of Enertec's revenues for the year ended December 31, 2011 and 75% for the nine months ended September 30, 2012 and our automated test equipment represented 22% of Enertec's revenues for the year ended December 31, 2011 and for the nine months ended September 30, 2012.

Management believes that the demand for our products, systems and solutions is not affected significantly by fluctuations in any particular geographic market outside the State of Israel because our products, systems and solutions can be tailored to fit the needs of these different disciplines and are not limited to any specific geography.

#### Our Market Opportunity

The MRM market, in which we operate through Micronet, is growing and researchers forecast it will continue its double digit growth in the coming years. Clement Driscoll and Mark Licht in Mobile Resource Management Systems Market Overview; Telematics for Fleet Management USA 2012, dated November 13, 2012, or the Driscoll Licht Report, estimated that in 2012 globally there were approximately 13.8 million subscribers to MRM services and forecasted that the number of subscribers will grow to approximately 32 million by 2016. Further, as outlined in the Driscoll Licht Report, in the United States, which historically has been Micronet's largest market, there are currently approximately 5.7 million mobile data devices in service in MRM systems, which number is projected to grow to approximately 9.0 million by the end of 2015. In 2011, the global penetration rate of MRM systems was approximately 7%. The global penetration rate is forecasted to grow to approximately 14% by 2016. In the United States, which is the most advanced market, the penetration rate was approximately 15% in 2011. According to the Driscoll Licht Report, based on market, technology and regulatory developments in the past several years, the U.S. market penetration rate is projected to reach approximately 27% of all fleets by 2016.

The defense and homeland security market, in which we operate through Enertec, includes the design and manufacturing of electronic systems developed to enhance large-scale military land, airborne and seaborne tactical platforms. These systems include military computer based systems, simulators, automatic test equipment and electronic instruments that are used or integrated in critical weapon systems such as command and control systems, missile fire control systems, support military aircraft systems and other defense systems and equipment such as night visions systems, unmanned aerial vehicle, or UAV, systems, laser products, airborne photography measures, processing and display of data systems and communications systems. In the Israeli defense market, Israeli providers supply a significant portion of their products to the Israeli defense forces specifically in view of the continuing defense needs of the State of Israel. However, the Israeli defense industry is also a well respected exporter of its products to armies and security forces worldwide and such international markets provide for stable demand for military and security products.

#### Our Strategy

Our strategy focuses on continued internal growth through diligent efforts in our traditional growing markets with new technologies and innovative systems and products, as well as the development of new potential segments and markets. To enhance our growth, we also look for appropriate acquisitions to complement and expand our offerings, support our goals and increase our competitive strengths. We concentrate the majority of our resources, including our marketing and sales efforts, in the United States, Israeli and European markets and the large growing Indian defense market.

In order to sell into the growing Indian defense market, in 2011 we entered into an agreement establishing a new joint venture with Amtek Defense Technologies Limited, or Amtek, a leading Indian industrial group, to market, manufacture and sell systems and solutions in India based on Enertec's technological and engineering capabilities. Amtek organized and is operating the joint venture entity. However, our investment is subject to the approval of the Indian Foreign Investment Promotion Board, or FIPB. We have submitted all necessary materials to the FIPB and are awaiting its approval of our application to acquire our ownership stake. Management believes that the

joint venture will enable us to deliver additional solutions to current and potential customers to satisfy their local procurement obligations in India that derive from their sales to Indian governmental entities. The joint venture also has the potential to create new sales opportunities in India and nearby markets.

## Our Risks and Challenges

An investment in our common stock involves a high degree of risk including risks related to our business, such as the following:

- Our revenue is highly dependent on our products and our ability to develop new technologies.
- Our business relates to developing sophisticated products, applications and new technologies, which entail significant risks and uncertainties.
- We depend on few major customers for a significant portion of our revenue.
- If we are unable to successfully protect our proprietary rights, our competitive position will be harmed.
- If others claim we infringe on their intellectual property rights, we may be subject to costly and time consuming litigation.
- We face competition from companies that have greater resources than we do and we may not be able to effectively compete against these companies.
- Our earnings and margins depend on our ability to perform under our contracts, the availability of raw materials and components and the adequate performance of our subcontractors.
- Our operations can be negatively impacted by the recent hostilities between the State of Israel and Hamas in Gaza, and by any other political, economic and military instability in Israel.

We are subject to a number of additional risks which you should be aware of before you buy our common stock. The risks are discussed more fully in the section entitled “Risk Factors” following this prospectus summary.

## Recent Developments

As stated above, in September 2012, we acquired through a wholly owned subsidiary a controlling interest in Micronet. In connection with the acquisition of Micronet we entered into an Amended and Restated Note and Warrant Purchase Agreement, dated as of September 7, 2012, with UTA Capital LLC, a Delaware limited liability company, or UTA, which, among other things, provided for issuance to UTA of a secured promissory note in the principal amount of \$3,000,000 in order to assist Lapis in financing the acquisition of Micronet.

In December 2012, we paid UTA \$2,500,000 in partial repayment of our aggregate \$6,000,000 debt owed to UTA using the proceeds of a new bank loan we obtained at such time from an Israeli bank on more favorable



terms.

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In January 2013, we and UTA amended the terms of the Amended and Restated Note and Warrant Purchase Agreement and the related secured promissory notes to provide that any net proceeds of any equity financing by us or any of our subsidiaries will be applied as follows: (x) the first \$4,000,000 may be retained by us or applied to reduce other obligations of ours or a subsidiary of ours, and (y) 75% of the excess of such net proceeds over \$4,000,000 may be retained by us or applied to reduce other obligations of ours or a subsidiary of ours, and the remaining 25% shall be applied (A) first to the repayment of the first note held by UTA and (B) second, to the extent any proceeds remain, to the repayment of the second note. We and UTA also agreed upon the application of our December 2012 prepayment of \$2,500,000 owed to UTA and the release of a certain pledge. In consideration for the amendments and releases we agreed to pay UTA \$480,000 in cash or a combination of cash and shares of our common stock.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information on these recent developments.

#### Our Corporate Information

We were incorporated in Delaware on January 31, 2002. Our executive offices in the United States are located at 70 Kinderkamack Road, Emerson, New Jersey 07630. Our telephone number is (201) 225-0190. Our executive offices in Israel are located at 16 Hacharoshet Street, Or Yehuda 60375, Israel, P.O. Box 1144,60200. Our telephone number in Israel is 972(3) 533-5126.

The Offering

Securities offered by us \_\_\_\_\_ shares of common stock

Public offering price per share \$\_\_\_\_\_

Common stock to be outstanding after this offering \_\_\_\_\_ shares of common stock

Over-allotment option We have granted to the underwriters an option to purchase up to an aggregate of \_\_\_\_\_ shares of common stock, exercisable solely to cover over-allotments, if any, at the public offering price less the underwriting discounts and commissions shown on the cover page of this prospectus. The underwriters may exercise this option in full or in part at any time and from time to time until 45 days after the date of this prospectus.

Use of proceeds We estimate that our net proceeds from this offering will be approximately \$\_\_\_\_\_ million, after deducting the underwriting discounts and commissions and estimated offering expenses, or \$\_\_\_\_\_ million if the underwriters exercise their over-allotment option in full. We currently intend to use (i) approximately \$1.125 million of the net proceeds received from this offering to repay a portion of our debt to UTA and (ii) up to \$1.250 million of the net proceeds received from this offering to repay a portion of the debt incurred by our subsidiary, Enertec Electronics Ltd, on December 17, 2012. We intend to use the remainder of the net proceeds received from this offering to expand our sales and marketing efforts, to increase our product offerings, including through potential acquisitions or purchases of relevant licenses, and for working capital and general corporate purposes. Accordingly, we have not allocated the remainder of the proceeds for any specific purpose at this time.

OTCQB trading symbol LPST

Proposed symbol and listing We have applied for listing of our common stock on The NASDAQ Capital Market under

the symbol "LPST".

Risk Factors

Investing in our securities involves a high degree of risk. As an investor, you should be able to bear a complete loss of your investment. You should carefully consider the information set forth in the "Risk Factors" section beginning on page 7.

The number of shares of common stock that will be outstanding after this offering set forth above is based on \_\_\_\_\_ shares of common stock outstanding as of \_\_\_\_\_ and reflects a \_\_\_-for-\_\_\_ reverse stock split that we intend to effect prior to the effectiveness of this offering, and excludes the following:

1,000,000 shares of common stock reserved for issuance under our 2012 Stock Incentive Plan; and

1,552,227 shares of common stock issuable upon exercise of outstanding warrants, consisting of 952,227 shares and 600,000 shares issuable upon exercise of outstanding warrants at an exercise price of \$0.50 and \$0.65 per share, respectively. The warrant to purchase 952,227 shares is currently exercisable, and the warrant to purchase 600,000 shares will become exercisable on March 7, 2013.

Unless specifically stated otherwise, all information in this prospectus:

reflects a \_\_\_-for-\_\_\_ reverse split of shares of our common stock; any fractional shares of our common stock resulting from such reverse split shall be paid in cash to our stockholders;

assumes no exercise of the underwriters' over-allotment option; and

assumes no exercise of warrants or options outstanding on the date of this prospectus, except as specifically set forth herein.

## Summary Financial Data

The following summary consolidated statements of operations for the years ended December 31, 2011 and 2010 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statements of operations data for the nine month periods ended September 30, 2012 and 2011 and the consolidated balance sheets data as of September 30, 2012 are derived from unaudited consolidated financial statements that are included elsewhere in this prospectus. The historical financial data presented below is not necessarily indicative of our financial results in future periods, and the results for the nine month period ended September 30, 2012 are not necessarily indicative of our operating results to be expected for the full fiscal year ending December 31, 2012 or any other period. You should read the summary consolidated financial data in conjunction with those financial statements and the accompanying notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The pro forma data combines the consolidated historical statement of operations of Lapis and of the acquired Micronet businesses as if the Micronet acquisition had been completed on January 1, 2011. This pro forma information should be read in conjunction with the respective consolidated historical financial statements, and the related notes, of Lapis and the acquired Micronet businesses included elsewhere in this prospectus. The pro forma adjustments reflecting the consummation of the Micronet acquisition are based on the purchase method of accounting, available financial information and the estimates and assumptions described in the notes to the “Unaudited Pro Forma Consolidated Combined Financial Information.” Our consolidated financial statements are prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. Our unaudited consolidated financial statements have been prepared on a basis consistent with our audited financial statements and include all adjustments, consisting of normal and recurring adjustments that we consider necessary for a fair presentation of the financial position and results of operations as of and for such periods.

		For the nine months ended September 30,		For the year ended December 31,	
	Pro Forma 2012	2012	2011	2011	2010
		(unaudited)			
		(in thousands, except share and per share amounts)			
<b>Consolidated Statements of Operations Data:</b>					
Revenue	\$ 27,917	\$ 8,212	\$ 6,947	\$ 10,146	\$ 11,106
Cost of revenue	18,514	6,017	4,191	6,297	6,181
Gross profit	9,403	2,195	2,756	3,849	4,925
Operating expenses	5,602	1,855	1,419	1,956	2,094
	3,290	340	1,337	1,893	2,831

Income from  
operations

Other expenses (income)	2,352	(3,462 )	474	534	560
Net income	\$ 1,532	\$ 3,802	\$ 863	\$ 1,359	\$ 2,271
Net income attributable to Lapis	\$ 820	\$ 4,087	\$ 863	\$ 1,359	\$ 1,619
Income per share attributable to Lapis, basic	\$ 0.13	\$ 0.63	\$ 0.13	\$ 0.21	\$ 0.27
Weighted average number of common shares outstanding, basic		6,483,000	6,483,000	6,483,000	6,483,000

The following table presents consolidated balance sheets data as of September 30, 2012 on:

an actual basis; and

a pro forma as adjusted basis, giving effect to the pro forma adjustments and the sale by us of \_\_\_ shares of common stock in this offering at an assumed public offering price of \$\_\_ per share, after deducting underwriting discounts and commissions and estimated offering expenses.

The pro forma as adjusted information set forth below is illustrative only and will be adjusted based on the actual public offering price and other terms of this offering determined at pricing.

	As of September 30, 2012	
	Actual	Pro Forma As Adjusted(1)
	(in thousands)	
<b>Consolidated Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 8,400	\$
Working capital	17,991	
Total assets	35,067	
Common Stock and additional paid in capital	6	
Total stockholders' equity	14,473	

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- (1) A \$1.00 increase or decrease in the assumed public offering price per share would increase or decrease our cash and cash equivalents, working capital, total assets and total stockholders' equity by approximately \$\_\_\_ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses payable by us.



## RISK FACTORS

Investing in our securities involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this prospectus (including our financial statements and the related notes appearing at the end of this prospectus), before deciding whether to invest in our securities. Investment risks can be market-wide as well as unique to a specific industry or company. The market risks faced by an investor in our shares are similar to the uncertainties faced by investors in a broad range of industries. There are, however, some risks that apply more specifically to Lapis because our business is focused on developing, manufacturing, integrating and marketing globally rugged and military computers, tablets and computer based systems and instruments for the commercial, defense and aerospace markets. These customer relationships involve certain unique risks. Our business is also exposed mainly to common risks, such as the ongoing development of high technology products and the price, availability and quality of commodities and subsystems. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. The occurrence of any of the following risks could harm our business, financial condition, results of operations or growth prospects. In that case, the trading price of our securities could decline, and you may lose all or part of your investment.

### Risks Related to Our Business and Industry

Potential political, economic and military instability in Israel could adversely affect our operations. The principal offices and operating facilities of Enertec and Micronet are located in Israel. Accordingly, political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been an increase in hostilities between Israel and the Palestinian Arabs, which has adversely affected the peace process and has negatively influenced Israel's relationship with its Arab citizens and several Arab countries, including the recent Israel-Gaza conflict. Such ongoing hostilities may hinder Israel's international trade relations and may limit the geographic markets where we can sell our products and solutions. Hostilities involving or threatening Israel, or the interruption or curtailment of trade between Israel and its present trading partners, could materially and adversely affect our operations.

In addition, Israel-based companies and companies doing business with Israel, have been the subject of an economic boycott by members of the Arab League and certain other predominantly Muslim countries since Israel's establishment. Although Israel has entered into various agreements with certain Arab countries and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, we cannot predict whether or in what manner these problems will be resolved. Wars and acts of terrorism have resulted in significant damage to the Israeli economy, including reducing the level of foreign and local investment.

Furthermore, certain of our officers and employees may be obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called up for active military duty at any time. All Israeli male citizens who have served in the army are subject to an obligation to perform reserve duty until they are between 40 and 49 years old, depending upon the nature of their military service.

If we are unable to develop new products and maintain a qualified workforce we may not be able to meet the needs of our customers in the future. Virtually all of the products that we produce and sell are highly engineered and require sophisticated manufacturing and system-integration techniques and capabilities. The markets and industry in which we operate are characterized by rapidly changing technologies. The products, systems and solutions needs of our customers change and evolve regularly. Accordingly, our future performance depends on our ability to develop and manufacture competitive products and solutions, and bring those products to market quickly at cost-effective prices. In addition, because of the highly specialized nature of our business, we must be able to hire and retain the skilled and

qualified personnel necessary to perform the services required by our customers. If we are unable to develop new products that meet customers' changing needs or successfully attract and retain qualified personnel, our future revenues and earnings may be adversely affected.

We are dependent on the services of our executive officers, whose potential conflicts of interest may not permit us to effectively execute our business strategy. We currently depend on the continued services and performance of our executive officers, particularly David Lucatz, our Chairman, Chief Executive Officer and President. Mr. Lucatz also serves as the President, Chairman and Chief Executive Officer of D.L. Capital Ltd., or DLC, the primary asset of which is its ownership of shares of our common stock. We have a management and consulting services agreement with DLC. Pursuant to a separate management and consulting services agreement, Mr. Lucatz has agreed to devote 60% of his time to Micronet matters for the three-year term of that agreement. Our business and results of operations may suffer if Mr. Lucatz, or any of our other executive officers or directors, is unable to devote the attention necessary to our overall business strategy and operations.

Developing new technologies entails significant risks and uncertainties that may cause us to incur significant costs and could have a material adverse effect on our operating results, financial condition, and/or cash flows. A significant portion of our business relates to developing sophisticated products and applications. New technologies may be untested or unproven. In addition, we may incur significant liabilities that are unique to our products and services. While we maintain insurance for some business risks, it is not practicable to obtain coverage to protect against all operational risks and liabilities. In addition, we may seek limitation of potential liability related to the sale and use of our products and systems. We may elect to provide products or services even in instances where we are unable to obtain such indemnification or qualification. Accordingly, we may be forced to bear substantial costs resulting from risks and uncertainties of our products and products under development, which could have a material adverse effect on our operating results, financial condition and/or cash flows.

If we are unable to effectively protect our proprietary technology, our business and competitive position may be harmed. Our success and ability to compete are dependent on our proprietary technology. The steps each of our operations, Enertec and Micronet, has taken to protect its proprietary rights may not be adequate and we may not be able to prevent others from using our proprietary technology. The methodologies and proprietary technology that constitute the basis of each of Enertec's and Micronet's solutions and products are not protected by patents. Existing trade secret, copyright and trademark laws and non-disclosure agreements to which each of Enertec and Micronet is a party offer only limited protection. Therefore, others, including Enertec's or Micronet's competitors, may develop and market similar solutions and products, copy or reverse engineer elements of Enertec's systems or Micronet's production lines, or engage in the unauthorized use of Enertec's or Micronet's intellectual property. Any misappropriation of Enertec's or Micronet's proprietary technology or the development of competitive technology may have a significant adverse effect on Enertec's or Micronet's ability to compete and may harm our business and financial position.

We may incur substantial costs as a result of a litigation or other proceeding relating to property rights. Third parties may challenge the validity of Enertec's or Micronet's intellectual property rights or bring claims regarding Enertec's or Micronet's infringement of a third party's property rights. This may result in costly litigation or other time-consuming and expensive judicial or administrative proceedings, which could deprive us of valuable rights, cause us to incur substantial expenses and cause a diversion for technical and management personnel. An adverse determination may subject us to significant liabilities or require us to seek licenses that may not be available from third parties on commercially favorable terms, if at all. Further, if such claims are proven valid, through litigation or otherwise, we may be required to pay substantial financial damages or be required to discontinue or significantly delay the development, marketing, sale or licensing of the affected products and intellectual property rights.

Our earnings and margins may be negatively impacted if we are unable to perform under our contracts. When agreeing to contractual terms, our management makes assumptions and projections about future conditions or events. These projections assess:

- the productivity and availability of labor;
- the complexity of the work to be performed;
- the cost and availability of materials;

- the impact of delayed performance; and
- the timing of product deliveries.

If there is a significant change in one or more of these circumstances or estimates, or if we face unexpected contract costs, the profitability of one or more of these contracts may be adversely affected and could affect, among other things, our earnings and margins, due to the fact that our contracts are often made on a fixed-price basis.

Our earnings and margins could be negatively affected by deficient subcontractor performance or unavailable raw materials or components. We rely on other companies to provide raw materials, major components and subsystems for our products. Subcontractors perform some of the services that we provide to our customers. We depend on these subcontractors and vendors to meet our contractual obligations in full compliance with customer requirements. Occasionally, we rely on only one or two sources of supply that, if disrupted, could have an adverse effect on our ability to meet our commitments to customers. Our ability to perform our obligations as a prime contractor may be adversely affected if one or more of these suppliers is unable to provide the agreed-upon supplies or perform the agreed-upon services in a timely and cost-effective manner. Further, deficiencies in the performance of our subcontractors and vendors could result in a customer terminating a contract for default. A termination for default could expose us to liability and adversely affect our financial performance and our ability to win new contracts.

We depend on major customers for a significant portion of our revenues and our future revenues and earnings could be negatively impacted by the loss or reduction of the demand for our products or services by such customers. A significant portion of our annual revenues in the past two years were from a few leading customers that are large scale strategic Israeli defense groups (Rafael, IAI). Following the acquisition of Micronet, PeopleNet, a subsidiary of Trimble, which operates in the U.S. market, has been added as a major customer. In view of the above, as of September 30, 2012, we had three customers that combined account for approximately 85.41% of our accounts receivable. This is in comparison to 2011 during which we had two customers which accounted for 90% of accounts receivable as of December 31, 2011. For the three and nine months ended September 30, 2012, approximately 83.21% and 85.41% of our sales were to three customers, compared to 93% and 91% for the three and nine months ended September 30, 2011, respectively made by two customers.

Israeli defense spending historically has been driven by perceived threats to the country's national security. Although Israel has been under a sustained elevated threat level in recent years, we cannot provide any assurance that its defense budget will continue to grow at the pace it has over the past decade. A decrease in Israel's defense spending or changes in spending allocation could result in one or more of our programs being reduced, delayed or terminated. Reductions in our existing programs could adversely affect our future revenues and earnings. In the MRM market, most of our major customers do not have any obligation to purchase additional products or services from us. Therefore, we cannot provide any assurance that any of our leading customers will continue to purchase solutions, products or services at levels comparable to previous years. A substantial loss or reduction in Micronet's existing programs could adversely affect our future revenues and earnings.

We operate in a highly competitive and fragmented market and may not be able to maintain our competitive position in the future. A number of larger competitors have recently entered the MRM market in which Micronet operates. These large companies have far greater development and capital resources than Micronet. Further, there are competitors of Micronet that offer solutions, products and services similar to those offered by Micronet. If they continue, these trends could undermine Micronet's competitive strength and position and adversely affect our earnings and financial condition.

Micronet may cease to be eligible for, or receive reduced, tax benefits under Israeli law, which could negatively impact our profits in the future. Micronet currently receives certain tax benefits under the Israeli Law for Encouragement of Capital Investments of 1959, as a result of the designation of its production facility as an "Approved Enterprise." To maintain its eligibility for these tax benefits, Micronet must continue to meet several conditions including, among others, generating more than 25% of its gross revenues outside the State of Israel and continuing to qualify as an "industrial company" under Israeli tax law. The tax benefits include a reduced corporate tax rate of 15% instead of 25%. In addition, in recent years the Israeli government has reduced the benefits available under this

program and has indicated that it may further reduce or eliminate benefits in the future. There is no assurance that Micronet will continue to qualify for these tax benefits or that such tax benefits will continue to be available at their current level, or at all. The termination or reduction of these tax benefits would increase the amount of tax payable by Micronet and, accordingly, reduce its net profit after tax and negatively impact our profits.

Because almost all of our officers and directors are located in non-U.S. jurisdictions, you may have no effective recourse against our management for misconduct. Currently all of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against such officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any U.S. state. Additionally, it may be difficult to enforce civil liabilities under U.S. securities law in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law.

Our financial results may be negatively affected by foreign exchange rate fluctuations. Our revenues are mainly denominated in U.S. currency and our costs are mainly denominated in Israeli currency. Where possible, we match sales and purchases in these and other currencies to achieve a natural hedge. Currently, neither Enertec nor Micronet has a policy with respect to the use of derivative instruments for hedging purposes, except that both Enertec and Micronet will consider engaging in such hedging activities on a case by case basis. To the extent we are unable to fully match our sales and purchases in different currencies, our business will be exposed to fluctuations in foreign exchange rates.

If we fail to manage our growth, our business could be disrupted and our profitability could be reduced. We have experienced rapid growth in recent periods through both the acquisition of Micronet and organic growth. As a result of our acquisition of Micronet, the number of our employees has effectively doubled since September 2012. We expect our growth may significantly strain our management and other operational and financial resources. In particular, growth increases the integration challenges involved in recruiting, training and retaining skilled technical, marketing and management personnel; maintaining high quality standards; preserving our corporate culture, values and entrepreneurial environment; developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal controls; and maintaining high levels of client satisfaction. If we are unable to manage growth effectively, our business, financial condition and results of operations will be materially adversely affected.

Our historical and pro forma condensed consolidated financial information may not be representative of our results as a combined company. The pro forma condensed consolidated financial information included elsewhere in this prospectus is constructed from the separate financial statements of us and Micronet and may not represent the financial information that would result from operations of the combined companies. In addition, the pro forma condensed consolidated financial information included elsewhere in this prospectus is based in part on certain assumptions that we believe are reasonable. We cannot assure you that our assumptions will prove to be accurate over time. Accordingly, the historical and pro forma condensed consolidated financial information included elsewhere in this prospectus may not reflect what our results of operations and financial condition would have been had we been a combined entity during the periods presented, or what our results of operations and financial condition will be in the future. The challenge of integrating previously independent businesses makes evaluating our business and our future financial prospects difficult. Our potential for future business success and operating profitability must be considered in light of the risks, uncertainties, expenses and difficulties typically encountered by recently combined companies.

Our quarterly revenues may fluctuate as a result of seasonal variation within the Israeli military procurement industry. Enertec's revenues experience seasonal variations because Israeli Ministry of Defense project approvals are frequently provided after the start of the fiscal year. Therefore, new orders to the military suppliers, including Enertec, are often delayed until the second half of the year. In addition, some of our customers require deliveries during the fourth quarter of the year in order to fulfill contractual delivery obligations to their own customers. As a result, we often experience an increase in our fourth quarter sales relative to sales in other quarters.





Risks Related to this Offering and Ownership of our Securities

Your ability to influence corporate decisions may be limited because ownership of our common stock is concentrated. Our directors and executive officers as a group beneficially owned 5,194,000 shares (approximately 80.1% of our outstanding common stock as of the date of this prospectus). As a result of their ownership of our common stock, our directors and executive officers, collectively, may be able to control matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control of the company, and this may have a material adverse effect on the trading price of our common stock.

Provisions in our corporate charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management. Provisions in our amended and restated certificate of incorporation and amended and restated by-laws that will become effective upon the completion of this offering may discourage, delay or prevent a merger, acquisition or other change in control of us that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the General Corporation Law of the State of Delaware, or the DGCL, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. We have not opted out of the restrictions under Section 203.

Our stockholders may experience significant dilution as a result of any additional financing using our equity securities and/or debt securities. To the extent that we raise additional funds by issuing equity securities or convertible debt securities, our stockholders may experience significant dilution. Sale of additional equity and/or convertible debt securities at prices below certain levels will trigger anti-dilution provisions with respect to certain securities we have previously sold. If additional funds are raised through a credit facility or the issuance of debt securities or preferred stock, lenders under the credit facility or holders of these debt securities or preferred stock would likely have rights that are senior to the rights of holders of our common stock, and any credit facility or additional securities could contain covenants that would restrict our operations.

If the prices of our securities are volatile, purchasers of our securities could incur substantial losses. The prices of our securities are likely to be volatile. As a result of this volatility, investors may not be able to sell their securities at or above the price paid in this offering. The market prices of our securities may be influenced by many factors, including but not limited to the following:

- announcements of developments related to our business;
- quarterly fluctuations in our actual or anticipated operating results;
- announcements of technological innovations;
- new products or product enhancements introduced by us or by our competitors;
- developments in patents and other intellectual property rights and litigation;
- developments in our relationships with our third party manufacturers and/or strategic partners;
- developments in our relationships with our customers and/or suppliers;

- regulatory or legal developments in the United States, Israel and other countries;
- general conditions in the global economy; and
- any other factors described in this “Risk Factors” section.

For these reasons and others, you should consider an investment in our securities as risky and invest only if you can withstand a significant loss and wide fluctuations in the value of your investment.

We have broad discretion in the use of the net proceeds from this offering and may use the net proceeds in ways with which you disagree. Our management will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our securities. You will be relying on the judgment of our management with regard to the use of these net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the net proceeds are being used appropriately. The failure by our management to apply these funds effectively could result in financial losses that could have a material adverse effect on our business, cause the price of our securities to decline and delay the development of our product candidates. Pending the application of these funds, we may invest the net proceeds from this offering in a manner that does not produce income or that loses value.

Investors in this offering will experience immediate and substantial dilution in net tangible book value. You will incur immediate and substantial dilution as a result of this offering. After giving effect to the sale by us of up to \_\_\_ shares offered in this offering at an assumed public offering price of \$\_\_\_ per share, and after deducting the underwriters' discounts and commissions and estimated offering expenses payable by us, investors in this offering can expect an immediate dilution of \$\_\_\_ per share. To the extent that options or warrants are granted and/or exercised you will experience further dilution. See "Dilution" for a more complete description of how the value of your investment in our common stock will be diluted upon the completion of this offering.

Pursuant to our 2012 Stock Incentive Plan, our board of directors is authorized to award restricted stock, restricted stock units and stock options to purchase shares of common stock to our officers, directors and employees, up to a total of 1,000,000 shares of common stock, subject to adjustment in the event of a stock split, stock dividend, recapitalization or similar capital change. As of the date of this prospectus, no awards or options had been granted under the 2012 Stock Incentive Plan. Stockholders will experience dilution in the event that shares of common stock are issued pursuant to the 2012 Stock Incentive Plan or any warrants that may be outstanding.

A sale of a substantial number of shares of our common stock may cause the price of our common stock to decline and may impair our ability to raise capital in the future. Our common stock is traded on the OTCQB and, despite certain increases of trading volume from time to time, there have been periods when it could be considered "thinly-traded," meaning that the number of persons interested in purchasing our common stock at or near bid prices at any given time may have been relatively small or non-existent. Finance transactions resulting in a large amount of newly issued shares that become readily tradable, or other events that cause current stockholders to sell shares, could place downward pressure on the trading price of our stock. In addition, the lack of a robust resale market may require a stockholder who desires to sell a large number of shares of common stock to sell the shares in increments over time to mitigate any adverse impact of the sales on the market price of our stock. If our stockholders sell, or the market perceives that our stockholders intend to sell for various reasons, including the ending of restriction on resale, substantial amounts of our common stock in the public market, including shares issued upon the exercise of outstanding options or warrants, the market price of our common stock could fall. Sales of a substantial number of shares of our common stock may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate. Moreover, we may become involved in securities class action litigation that could divert management's attention and harm our business.

If securities or industry analysts do not publish research or reports or publish unfavorable research about our business, the price of our common stock and other securities and their trading volume could decline. The trading market for our common stock and other securities will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of us, the trading price for our common stock and other securities would be negatively affected. In the event we obtain securities or industry analyst coverage, if one or more of the analysts who covers us downgrades our securities, the price of our securities would likely decline. If one or more of these analysts ceases to cover us or fails to publish regular reports on us, interest in the purchase of our securities could decrease, which could cause the price of our common stock and other securities and

their trading volume to decline.

We did not declare or pay cash dividends in either 2011 or 2010 and do not expect to pay dividends for the foreseeable future. We have no dividends policy and will consider distributing dividends on a year by year basis. The payment of dividends, if any, in the future, rests within the discretion of our board of directors and will depend, among other things, upon our earnings, our capital requirements and our financial condition, as well as other relevant factors. There are no restrictions in our articles of incorporation or bylaws that restrict us from declaring dividends. There are no assurances that we will pay dividends in the future.

If our common stock remains subject to the Securities and Exchange Commission's, or the SEC's, penny stock rules, broker-dealers may experience difficulty in completing customer transactions and trading activity in our securities may be adversely affected. Subject to certain exceptions such as if we have net tangible assets of \$2,000,000 or more or our common stock has a market price per share of \$5.00 or more (as calculated pursuant to SEC rules), transactions in our common stock will be subject to the SEC's "penny stock" rules. If our common stock remains subject to the "penny stock" rules promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our securities may be adversely affected. Under these rules, broker-dealers who recommend such securities to persons other than institutional accredited investors must: make a special written suitability determination for the purchaser; receive the purchaser's written agreement to the transaction prior to sale; provide the purchaser with risk disclosure documents which identify certain risks associated with investing in "penny stocks" and which describe the market for these "penny stocks" as well as a purchaser's legal remedies; and obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before a transaction in a "penny stock" can be completed. As a result, if our common stock becomes or remains subject to the penny stock rules, the market price of our securities may be depressed, and you may find it more difficult to sell our securities.

You should be aware that, according to the SEC, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. These could affect low-priced stocks, such as ours, even if they do not qualify as "penny stocks" under the SEC rules. Such patterns include:

- Control of the market for the security by one or a few broker-dealers,
- "Boiler room" practices involving high-pressure sales tactics,
- Manipulation of prices through prearranged matching of purchases and sales,
- The release of misleading information,
- Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers, and
- Dumping of securities by broker-dealers after prices have been manipulated to a desired level which hurts the price of the stock and causes investors to suffer losses.

We expect to effect a reverse stock split of our shares of common stock prior to the effectiveness of this offering. We expect to effect a reverse stock split of our shares of common stock prior to the effectiveness of this offering. While our board of directors believes that the potential advantages of a reverse stock split, including meeting NASDAQ listing requirements, outweigh the risks, there can be no assurance that:

- Our shares of common stock will trade at a price in proportion to the reduction in the number of outstanding shares resulting from the reverse stock split,
- The reverse stock split will result in a per share price high enough to attract and retain employees and strategic partners,
- The bid price of our shares of common stock after a reverse stock split can be maintained at or above the minimum bid price requirement,
- Our shares of common stock will not be rejected from listing on The NASDAQ Capital Market for other reasons,



- The liquidity of our shares of common stock will not be adversely affected by the reduced number of shares that would be outstanding after the reverse stock split,
- Engaging in a reverse stock split will not be perceived in a negative manner by investors, analysts or other stock market participants, or
- The reverse stock split will not result in some stockholders owning “odd-lots” of less than 100 shares of common stock, potentially resulting in higher brokerage commissions and other transaction costs than the commissions and costs of transactions in “round-lots” of even multiples of 100 shares.

Our shares of common stock are not yet listed for trading on a national securities exchange. The listing of our shares of common stock on a national exchange is a condition to this offering. Although we have applied to have our common stock listed for trading on The NASDAQ Capital Market and we currently expect such listing to be approved in connection with this offering, there is no assurance that such listing will be approved or how long such approval could take. Currently, our common stock only trades on the OTCQB and is not listed for trading on any national securities exchange. Investments in securities trading on the OTCQB are generally less liquid than investments in securities trading on a national securities exchange. The failure of our shares to be approved for trading on a national securities exchange may have the effect of limiting the trading activity of our common stock and reducing the liquidity of an investment in our common stock.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, including statements regarding the safety and efficacy of our product candidates, the goals of our development activities, estimates of the potential markets for our product candidates, estimates of the capacity of manufacturing and other facilities to support our products, our expected future revenues, operations and expenditures and projected cash needs. The forward-looking statements are contained principally in the sections entitled “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that could cause our actual results, levels of activity, performance or achievement to differ materially from those expressed or implied by these forward-looking statements. These risks and uncertainties include, among others:

- our ability to obtain additional funding to develop our products, solutions and services;
  - the need to obtain regulatory approval of our products;
- our ability to commercialize our products, solutions and services;
- market acceptance of our products, solutions and services;
- our ability to establish an effective sales and marketing infrastructure;
- competition from existing products or new products that may emerge;
- regulatory difficulties relating to products that have already received regulatory approval;
  - potential product liability claims;
- our ability to establish or maintain collaborations, licensing or other arrangements;
- our ability and third parties’ abilities to protect intellectual property rights;
- compliance with obligations under intellectual property licenses with third parties;
  - our ability to adequately support future growth; and
- our ability to attract and retain key personnel to manage our business effectively.

Forward-looking statements include all statements that are not historical facts. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “potential,” or the negative of those terms, and similar expressions and comparable terminology intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements represent our estimates and assumptions only as of the date of this prospectus and, except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this prospectus. The forward-looking statements contained in this prospectus are not covered by the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended, or the Securities Act.





## USE OF PROCEEDS

We estimate that the net proceeds from the sale of the \_\_\_ shares of common stock in the offering at an assumed offering price of \$\_\_\_ will be approximately \$\_\_\_\_\_ million, after deducting the underwriting discounts and commissions and estimated offering expenses, or \$\_\_\_\_\_ million if the underwriters exercise their over-allotment option in full.

We currently intend to use (i) approximately \$1.125 million of the net proceeds received from this offering to repay a portion of our debt to UTA, which matures on March 1, 2014 and has an interest rate of 8% per annum and (ii) up to \$1.250 million of the net proceeds received from this offering to repay a portion of the debt incurred by our subsidiary, Enertec Electronics Ltd, on December 17, 2012. Approximately \$2.370 million of this debt is a five-year term loan and bears annual interest at a rate of 2.75% and approximately \$1.315 million is a short-term credit line with an initial interest rate of prime plus 2% per annum. Both of these interest rates are adjustable in accordance with the terms of the loan documents. The proceeds of this indebtedness were used to repay \$2.500 million of our debt to UTA and to pay for the purchase of additional ordinary shares of Micronet and for working capital purposes.

We intend to use the remainder of the net proceeds received from this offering to expand our sales and marketing efforts, to increase our product offerings, including through potential acquisitions or purchases of relevant licenses, and for working capital and general corporate purposes. Our management has significant flexibility and broad discretion in applying the net proceeds received in this offering. The amount and timing of our actual expenditures will depend on numerous factors, including the status of our development efforts, sales and marketing activities and the amount of cash generated or used by our operations. Accordingly, we have not allocated the remainder of the proceeds for any specific purpose at this time. Further, we have no present agreement regarding any material acquisitions. Pending use of the net proceeds, we intend to invest in a combination of short-term bank deposits, interest-bearing, investment-grade securities.

## DIVIDEND POLICY

We did not declare or pay cash dividends in either 2011 or 2010 and currently do not plan to declare dividends on shares of our common stock in the foreseeable future. We have no dividends policy and will consider distributing dividends on a year by year basis. We expect to retain our future earnings, if any, for use in the operation and expansion of our business. Subject to the foregoing, the payment of cash dividends in the future, if any, will be at the discretion of our board of directors and will depend upon such factors as earnings levels, capital requirements, our overall financial condition and any other factors deemed relevant by our board of directors.

## CAPITALIZATION

The following table sets forth our cash and our capitalization as of September 30, 2012:

- on an actual basis;
- on a pro forma, as adjusted basis to give effect to the sale of the shares in this offering at the assumed public offering price of \$\_\_\_ per share, after deducting underwriting discounts and commissions and other estimated offering expenses payable by us.

All share numbers reflect a \_\_\_-for-\_\_\_ reverse split of shares of our common stock we intend to effect prior to the effectiveness of this offering.

The pro forma information below is illustrative only and our capitalization following the completion of this offering will be adjusted based on the actual public offering price and other terms of this offering determined at pricing. You should read this table together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited and unaudited financial statements and the related notes appearing elsewhere in this prospectus.

	As of September 30, 2012	
	Actual	Pro Forma As Adjusted
	(in thousands, except per share amounts)	
Cash and cash equivalents	8,400	
Total indebtedness (including current maturities)	12,108	
Preferred stock; \$.001 par value, 5,000,000 shares authorized, none issued and outstanding	-	
Common stock; \$.001 par value, 100,000,000 shares authorized, 6,483,000 shares issued and outstanding	6	
Additional paid-in capital	-	
Accumulated other comprehensive income	(132	)
Retained Earnings	7,589	
Stockholders’ equity in Lapis Technologies	7,463	
Non-controlling interest in subsidiary	7,010	
<b>Total stockholders’ equity</b>	<b>14,473</b>	
Total capitalization		



## DILUTION

If you invest in our common stock, your interest will be immediately and substantially diluted to the extent of the difference between the public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after giving effect to this offering.

Our pro forma net tangible book value as of September 30, 2012 was \$ \_\_\_\_\_ or \$ \_\_\_\_\_ per share of common stock, based upon \_\_\_\_\_ shares outstanding, after giving effect to issuances of warrants from January 1, 2012 through and immediately prior to the date of this offering. After giving effect to the \_\_\_\_-for-\_\_\_\_ reverse split of shares of our common stock that we intend to effect prior to the effectiveness of this offering, and the sale of the shares in this offering at the assumed public offering price of \$\_\_ per share, at September 30, 2012, after deducting underwriting discounts and commissions and other estimated offering expenses payable by us, our pro forma as adjusted net tangible book value at September 30, 2012 would have been approximately \_\_, or \$\_\_ per share. This represents an immediate increase in pro forma net tangible book value of approximately \$\_\_ per share to our existing stockholders, and an immediate dilution of \$\_\_ per share to investors purchasing shares in the offering.

Dilution in pro forma net tangible book value per share represents the difference between the amount per share paid by purchasers of our common stock in this offering and the pro forma net tangible book value per share of our common stock immediately after this offering.

The following table illustrates the per share dilution to investors purchasing shares in the offering:

Assumed public offering price per share	\$
Pro forma net tangible book value per share as of _____, 2012	\$
Increase in net tangible book value per share attributable to this offering	\$
Pro forma as adjusted net tangible book value per share after this offering	\$
Dilution in pro forma net tangible book value per share to new investors	\$

The information above assumes that the underwriters do not exercise their over-allotment option. If the underwriters exercise their over-allotment option in full, the pro forma as adjusted net tangible book value will increase to \$\_\_ per share, representing an immediate increase to existing stockholders of \$\_\_ per share and an immediate dilution of \$\_\_ per share to new investors. If any shares are issued upon exercise of outstanding options or warrants, new investors will experience further dilution.

The following table sets forth, as of September 30, 2012, the number of shares of our common stock purchased from or issued by us, the total cash consideration paid for these shares and the average price per share paid by existing stockholders and the new investors in this offering (based upon, in the case of new investors, an assumed public offering price of \$\_\_\_\_per share) before deducting underwriting discounts and commissions and our estimated offering expenses:

	Shares Purchased		Total Consideration		Average Price per Share
	Number	Percent	Amount	Percent	
Existing stockholders		%	\$	%	\$
New stockholders					
Total		100.0 %		100.0 %	



## UNAUDITED PRO FORMA CONSOLIDATED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma consolidated combined financial information gives pro forma effect to the acquisition as of September 7, 2012 of Micronet, combining our consolidated historical statement of operations with the acquired Micronet businesses as if the Micronet acquisition had been completed on January 1, 2011. This pro forma information should be read in conjunction with the respective consolidated historical financial statements, and the related notes, of Lapis and the acquired Micronet businesses included elsewhere in this prospectus. The pro forma adjustments reflecting the consummation of the Micronet acquisition are based on the purchase method of accounting, available financial information and the estimates and assumptions described in the notes to the unaudited pro forma consolidated combined financial information. For purposes of preparing our consolidated financial statements, we have established a new basis for the assets and liabilities of the acquired Micronet businesses based upon their fair values and our purchase price for them, including the costs of the Micronet acquisition. The unaudited pro forma consolidated combined financial information reflects our best estimates; however, the results of operations may differ significantly from the pro forma amounts reflected in this prospectus due to various factors, including, without limitation, access to additional information and changes in value. The pro forma adjustments do not reflect any operating efficiencies or cost savings that may be achievable with respect to the combined businesses. The following information is not necessarily indicative of the future operating results of the combined businesses or results of operations of the combined businesses had the Micronet acquisition actually been completed on January 1, 2011.

	Year ended December 31, 2011			Pro Forma(2)
	Lapis Historical	Micronet(1)	Adjustments	
(in thousands, except per share data)				
<b>Statement of Operations Data:</b>				
Revenues	\$ 10,146	\$ 12,545	\$	\$ 22,691
Cost of revenues	6,297	8,920	1,171	16,388
Gross profit	3,849	3,625	(1,171 )	6,303
<b>Operating expenses:</b>				
Selling and marketing	350	482	-	832
General and administrative	1,366	1,659	(29 )	2,996
Research and development, net	240	1,446	-	1,686
Amortization of intangible assets	-	-	1,084	1,084
Total operating expenses	1,956	3,587	1,055	6,598
Income (loss) from operations	1,893	38	(2,226 )	(295 )
Financial income (expenses), net	(567 )	1	(628 )	(1,194 )
Provision (benefit) for income taxes	(77 )	-	(338 )	(415 )
Equity in net earnings (losses) of affiliated company	(44 )	-	-	(44 )
Income from discontinued operation	-	144	-	144
Net income (loss)	1,359	183	(2,516 )	(974 )
Net loss attributable to noncontrolling interests	-	-	(892 )	(892 )
Net income (loss) attributable to Lapis	\$ 1,359	\$ 183	\$ (1,624 )	\$ (82 )
Earnings per share attributable to Lapis, basic	\$ 0.21			\$ (0.01 )
Earnings per share attributable to Lapis, diluted	\$ 0.21			\$ (0.01 )
<b>Shares used in computing:</b>				
Basic net earnings per share				

Diluted net earnings per share

Weighted average common shares outstanding:

Basic	6,483,000	6,483,000
Diluted	6,483,000	6,483,000

(1) Data reflects period from January 1, 2011 to December 31, 2011, as if the Micronet acquisition had been completed on January 1, 2011.

(2) Data includes amortization of intangible assets.



## SELECTED CONSOLIDATED FINANCIAL DATA

The following table summarizes our historical consolidated financial data for the periods presented. The selected consolidated statements of operations data for the years ended December 31, 2011 and 2010 and the consolidated balance sheets data as of December 31, 2011 and 2010 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated statements of operations data for the nine month periods ended September 30, 2012 and 2011 and the consolidated balance sheets data as of September 30, 2012 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in the future, and the results for the nine month period ended September 30, 2012 are not necessarily indicative of our operating results to be expected for the full year ending December 31, 2012 or any other period. The unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments, which consist only of normal and recurring adjustments, necessary for the fair presentation of those unaudited consolidated financial statements. You should read the selected consolidated financial data in conjunction with those financial statements and the accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

	Nine months ended September 30,		For the year ended December 31,	
	2012	2011	2011	2010
	(unaudited)			
	(in thousands, except share and per share amounts)			
<b>Statements of Operations Data:</b>				
Revenue	\$ 8,212	\$ 6,947	\$ 10,146	\$ 11,106
Cost of revenue	6,017	4,191	6,297	6,181
Gross profit	2,195	2,756	3,849	4,925
Operating expenses	1,855	1,419	1,956	2,094
Income from operations	340	1,337	1,893	2,831
Other expenses	(3,462 )	474	534	560
Net income	3,802	863	1,359	2,271
Net income attributable to Lapis,	4,087	863	1,359	1,619
Income per share attributable to Lapis, basic	\$ 0.63	\$ 0.13	\$ 0.21	\$ 0.27
Weighted average number of common shares outstanding, basic	6,483,000	6,483,000	6,483,000	6,483,000

	Nine months ended September 30,		For the year ended December 31,	
	2012	2011	2011	2010
	(unaudited)			
	(in thousands)			
<b>Balance Sheet Data:</b>				
Cash and cash equivalents	\$ 8,400	\$ 2,051	\$ 940	\$ 626
Total assets	35,067	12,544	12,578	9,284
Total liabilities	20,594	9,304	8,966	5,239
Total stockholders' equity	14,473	3,240	3,612	4,045
Total liabilities and stockholders' equity	35,067	12,544	12,578	9,284



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis together with our financial statements and the notes to those statements included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under "Risk Factors" and elsewhere in this prospectus, our actual results may differ materially from those anticipated in these forward-looking statements.

### Overview

We are a Delaware corporation that was formed on January 31, 2002. We operate through two Israel-based companies, Enertec, our wholly-owned subsidiary, and Micronet, in which we have a controlling interest, which develop, manufacture, integrate and globally market rugged computers, tablets and computer-based systems and instruments for the commercial, defense and aerospace markets. Our products, solutions and services are designed to perform in severe environments and battlefield conditions.

Micronet operates in the growing commercial MRM market. Micronet designs, develops, manufactures and sells rugged mobile computing devices that provide fleet operators and field workforces with computing solutions in challenging work environments. Micronet's vehicle cabin installed and portable tablets increase workforce productivity and enhance corporate efficiency by offering computing power and communication capabilities that provide fleet operators with visibility into vehicle location, fuel usage, speed and mileage. Micronet's customers consist primarily of ASPs and solution providers specializing in the MRM market. Currently, Micronet does not sell to end-users. Its customers are generally MRM solution and service providers, such as PeopleNet and XRS Corporation. These companies sell Micronet's products as part of their MRM systems and solutions. Micronet has customers in 20 countries. The United States currently constitutes its largest market, representing approximately 84% of revenue for the year ended December 31, 2011 and 94% for the nine months ended September 30, 2012. For the year ended December 31, 2011, Micronet's largest customer was PeopleNet, which represented approximately 39% of its revenues. The next largest customer represented approximately 16% of its revenues. For the nine months ended September 30, 2012, Trimble and PeopleNet combined represented approximately 73% of Micronet's revenues. In the nine months ended September 30, 2012 no other customer accounted for more than 9% of Micronet's revenue. We acquired control of Micronet in September 2012 and until January 21, 2013 we owned 50.1% of Micronet. On January 21, 2013, each of Micronet's Chairman of the board of directors and Chief Executive Officer exercised certain options to purchase Micronet ordinary shares. As a result, our ownership of Micronet shares was diluted from 50.1% to 48.06%. We are currently considering exercising certain options we own to buy additional Micronet ordinary shares and increase our percentage ownership of Micronet to 50.1%.

Enertec operates in the Defense and Aerospace markets and designs, develops, manufactures and supplies various customized military computer-based systems, simulators, automatic test equipment and electronic instruments. Enertec's solutions and systems are designed according to major aerospace integrators' requirements and are integrated by them into critical systems such as command and control, missile fire control, maintenance of military aircraft and missiles for use by the Israeli Air Force and Navy and by foreign defense entities. Approximately 65% of our revenues for the year ended December 31, 2011 were from independent business units or groups within IAI, the leading Israeli defense system integrator, and approximately 26% were from business units of Rafael, another Israeli state-owned major defense developer and integrator of critical weapon systems. For the nine months ended September 30, 2012, IAI represented approximately 79% and Rafael represented approximately 12% of Enertec's revenues, respectively. These distinct units and groups create diversity to our business and revenue streams. The system integrators that are our primary customers market their solutions throughout the world and across the full spectrum of military applications (land, sea, air). Command and fire control systems represented approximately 74% of Enertec's revenues for the year ended December 31, 2011 and 75% for the nine months ended September 30, 2012 and our

automated test equipment represented 22% of Enertec's revenues for the year ended December 31, 2011 and for the nine months ended September 30, 2012.

Management believes that the demand for our products, systems and solutions is not affected significantly by fluctuations in any particular geographic market outside the State of Israel because our products, systems and solutions can be tailored to fit the needs of these different disciplines and are not limited to any specific geography.

Our strategy focuses on continued internal growth through diligent efforts in our traditional growing markets with new technologies and innovative systems and products, as well as the development of new potential segments and markets. To enhance our growth, we also look for appropriate acquisitions to complement and expand our offerings, support our goals and increase our competitive strengths. We concentrate the majority of our resources, including our marketing and sales efforts, in the United States, Israeli and European markets and the large growing Indian defense market.

In order to sell into the growing Indian defense market, in 2011 we entered into an agreement establishing a new joint venture with Amtek, a leading Indian industrial group, to market, manufacture and sell systems and solutions in India based on Enertec's technological and engineering capabilities. Amtek organized and is operating the joint venture entity. However, our investment is subject to the approval of the FIPB. We have submitted all necessary application materials and are awaiting the FIPB's approval of our application to acquire our ownership stake. Management believes that the joint venture will enable us to deliver additional solutions to current and potential customers to satisfy their local procurement obligations in India that derive from their sales to Indian governmental entities. The joint venture also has the potential to create new sales opportunities in India and nearby markets.

### Liquidity and Capital Resources

On September 7, 2012, we, through our wholly-owned subsidiary Enertec Electronics Ltd., an Israeli corporation, or Enertec Electronics, acquired from three Israeli individuals who collectively were the former controlling shareholders, or the Sellers, 47.5% of the issued and outstanding shares of Micronet pursuant to a stock purchase agreement, or the Agreement. As a result of the transaction, we became the largest shareholder of Micronet.

Pursuant to the terms of the Agreement, Lapis acquired from the Sellers 8,256,000 ordinary shares of Micronet for 17,300,000 NIS (approximately \$4,300,000), divided pro rata among the Sellers. The Agreement also includes two call options granted to Lapis and a put option granted to the Sellers. Pursuant to the initial call option, Lapis is entitled to purchase from the Sellers, during the period beginning on the closing of the transaction and for 11 months thereafter, up to additional 996,000 ordinary shares of Micronet (5.73% of Micronet's issued and outstanding shares) for a price of 2,100,000 NIS (approximately \$0.525 per share currently) per share as adjusted based on the Israeli customers index. Under the second call option, Lapis is entitled to purchase from the Sellers up to additional 1,200,000 ordinary shares of Micronet (6.78% of Micronet's issued and outstanding shares) for a price of 2,100,000 NIS per share as adjusted based on the Israeli customers index (currently reflecting \$0.525 per share) plus 25% Micronet's 2012 gross profit per share based on Micronet's issued and outstanding shares as of December 31, 2012, up to maximum of 18,850,000 shares, but in any event such price per share shall not exceed 3 NIS (approximately \$0.75 per share currently). Pursuant to the put option granted to Sellers, the Sellers can cause the sale of up to an additional 334,000 ordinary shares per Seller (and a total of up to 1,000,002 shares constituting 5.73% of Micronet's issued and outstanding shares) for a price of 2,200,000 NIS per share (approximately \$0.55 per share currently) as adjusted based on the Israeli customers index. The put option is in effect for the period that begins on the one-year anniversary of the closing of the transaction and ends on the 22-month anniversary of the closing of the transaction. On November 14, 2012, we, via Enertec Electronics, exercised its right pursuant to the call option granted under the Agreement and acquired an additional 2.6% of the issued and outstanding shares of Micronet for a consideration of \$243,000, increasing our ownership to 50.1% of the issued and outstanding shares of Micronet. On January 21, 2013, each of Micronet's Chairman of the board of directors and Chief Executive Officer exercised certain options to purchase Micronet ordinary shares. As a result, our ownership of Micronet shares was diluted from 50.1% to 48.06%. We are considering exercising certain options we own to buy Micronet ordinary shares and increase our percentage ownership of Micronet to 50.1%.

In connection with the acquisition of Micronet stock pursuant to the Agreement, or the Acquisition, we entered into an Amended and Restated Note and Warrant Purchase Agreement, dated as of September 7, 2012, with UTA. The Amended and Restated Note and Warrant Purchase Agreement amended the Note and Warrant Purchase Agreement

as amended by that certain letter agreement dated as of August 16, 2011, and as further amended by that certain Second Amendment to Note and Warrant Purchase Agreement dated as of August 31, 2011 and that certain Third Amendment to Note and Warrant Purchase Agreement dated as of November 24, 2011 with UTA, or the Original Agreement. We had initially entered into the Original Agreement with UTA to raise capital that would help support our growth strategy through potential acquisitions of target companies with synergetic businesses to allow us to enlarge the variety of our solutions to the market and increase our competitiveness. In connection therewith, on September, 1, 2011, we issued to UTA a secured promissory note in the principal amount of \$3,000,000 that matures on March 1, 2014 and bears interest at a rate of 8% per annum, or the First Note and a warrant to purchase up to 952,227 shares of our common stock, or the First Warrant.

Pursuant to the Amended and Restated Note and Warrant Purchase Agreement, we and UTA agreed to revise the Original Agreement to provide, among other things, (i) for the consummation of the Second Closing, as described below, to assist Lapis in financing the Acquisition although the time period in which the Second Closing could occur had expired under the terms of the Original Agreement, (ii) that Enertec pledge to UTA the shares acquired in the Acquisition, (iii) that DLC, our controlling stockholder, enter into a pledge agreement with UTA to pledge 1,000,000 shares of our common stock owned by DLC, (iv) that the Secured Promissory Note made by Lapis payable to UTA, dated September 1, 2011 in the principal amount of \$3,000,000 be amended to provide that the principal payments be paid in three equal principal payments of \$1,000,000 each, the first on December 31, 2012, and the second on September 1, 2013, with the remaining principal balance due at the maturity on March 1, 2014, and (v) that we satisfy within four months of September 7, 2012 the corporate governance requirements under the NASDAQ Stock Market, or the NASDAQ, Marketplace Rule 5605 (relating to Board and Board committee composition, process and decision-making), Rule 5610 (relating to codes of conduct) and Rule 5630 (relating to the review and approval of related-party transactions) as if our common stock were listed on the NASDAQ.

On September 7, 2012, the date of the Second Closing, Lapis issued to UTA pursuant to the Amended and Restated Note and Warrant Purchase Agreement (i) a secured promissory note in the principal amount of \$3,000,000, with an initial interest rate equal to 8% per annum, \$1,500,000 of such amount payable on May 15, 2013, and the remaining balance due at the Maturity Date of April 1, 2014, or the Second Note, and (ii) a warrant entitling UTA to purchase from Lapis up to a total of 600,000 shares of our common stock at an exercise price initially equal to \$0.65 per share, subject to adjustment in certain circumstances, or the Second Warrant, which is first exercisable on March 7, 2013, and, to the extent not exercised, expires on March 7, 2018.

On November 6, 2012, we and UTA amended the terms of the First and Second Warrants, or the Warrants, issued to UTA under the Original Agreement to provide that, subject to certain terms and conditions, (i) we will not issue Additional Shares of Common Stock (or Common Stock Equivalents), as such terms are defined in the Warrants, at a price per share of less than \$0.50 without UTA's prior written consent for so long as any warrant remains unexercised, (ii) UTA waives its right to certain anti-dilution protections of each Warrant as a result of our issuance of additional shares or common stock equivalents for consideration per share less than the applicable exercise price at the issuance date, and (iii) we waive certain upward exercise price adjustments with respect to one-third of the warrant issued under the Original Agreement and agree that the exercise price with respect to the entire warrant shall remain the same exercise price at the issuance date, subject to certain adjustments, regardless of our 2012 after-tax consolidated net income.

On January 28, 2013, we and UTA amended the terms of the Amended and Restated Note and Warrant Purchase Agreement and the First Note and Second Note to provide that any net proceeds of any equity financing by us or any of our subsidiaries will be applied as follows: (x) the first \$4,000,000 may be retained by us or applied to reduce other obligations of ours or a subsidiary of ours, and (y) 75% of the excess of such net proceeds over \$4,000,000 may be retained by us or applied to reduce other obligations of ours or a subsidiary of ours, and the remaining 25% shall be applied (A) first to the repayment of the First Note and (B) second, to the extent any proceeds remain, to the repayment of the Second Note. We and UTA also agreed upon the application of our December 17, 2012 prepayment of \$2,500,000 owed to UTA and the release of a certain pledge. In consideration for the amendments and releases we agreed to pay UTA \$480,000 in cash or a combination of cash and shares of our common stock.

As of September 30, 2012, our total cash and cash equivalents balance was \$8,400,000 and marketable securities amounted to \$3,039,000. These balances, as compared to \$940,000 and \$0, respectively, as of December 31, 2011, reflect a significant increase of \$7,460,000 in cash and cash equivalents and of \$3,039,000 in marketable securities, attributable mainly to the Acquisition. Of the total increase in cash and cash equivalents of \$7,460,000 and in marketable securities of \$3,039,000, Micronet accounted for \$6,128,000 and \$3,039,000, respectively. The remaining \$1,332,000 increase in our cash balance as of September 30, 2012 as compared with December 31, 2011 is due to increased collection of the accounts receivable of Enertec.





As of September 30, 2012, our total current assets were \$30,620,000 as compared to \$12,071,000 at December 31, 2011. This significant increase in our current assets is attributable primarily to the increase of \$10,445,000 in cash and cash equivalents and marketable securities (see above), and an increase in inventory of \$5,901,000. The increase of the inventory is attributable to the inventory of Micronet (amounting to \$6,276,000), which increase was slightly offset by the reduction of \$375,000 in the inventory of Enertec.

Our accounts receivable at September 30, 2012 were \$8,876,000 as compared to \$7,947,000 at December 31, 2011. This increase in accounts receivables is due to the consolidation of Micronet's accounts receivable of \$3,283,000, which was offset by a reduction of \$2,354,000 in the accounts receivable of Enertec due to collection as mentioned above.

As of September 30, 2012, our working capital was \$17,991,000 as compared to \$7,960,000 at December 31, 2011. The increase in the working capital is due primarily to the Acquisition as described above.

As of September 30, 2012, our total bank debt was \$3,791,000 as compared to \$3,271,000 at December 31, 2011. Our bank debt is composed of short-term loans amounting to \$2,180,000 as of September 30, 2012 compared to \$766,000 at December 31, 2011, and long-term loans amounting to \$1,611,000 as of September 30, 2012 compared to \$2,505,000 at December 31, 2011. The short-term loans have maturity dates between October 2012 and September 2013 and have interest rates between Israeli prime (currently 3.5%) plus 0.5% to 1.5%, and a fixed price loan with an interest rate of 5%. The long-term loans have maturity dates between May 2014 and April 2016 and have interest rates between Israeli prime plus 0.5% to 1.5%, of which the majority in aggregate principal amount has an interest rate of Israeli prime plus 1.4% with a maturity date of April 2016.

The current portion of long-term loans at September 30, 2012 was \$3,222,000 as compared to \$1,000,000 at December 31, 2011. The increase in the current portion of long-term loans is primarily attributable to the borrowing by us from UTA, pursuant to the Second Closing that took place on September 7, 2012, of an additional \$3,000,000 which bears interest at a rate of 8% per annum along with the issuance of 600,000 warrants to UTA in September 2012, which was used to finance the Acquisition.

As of September 30, 2012, we were in compliance with all of the terms of our bank debt.

On December 17, 2012, our wholly-owned subsidiary Enertec Electronics entered into a loan agreement with an Israeli bank, pursuant to which Enertec Electronics obtained a loan for 14,000,000 NIS (approximately \$3,685,000), 9,000,000 NIS (approximately \$2,370,000) of which is a long term loan that is to be repaid within five years and 5,000,000 NIS (approximately \$1,315,000) is a short-term credit line. Approximately \$2,500,000 of the proceeds of this loan were used to repay certain of our debt to UTA under that certain Amended and Restated Note and Warrant Purchase Agreement described above. The long-term loan initially bears annual interest at a rate of 2.75%, and the credit line will initially bear interest at a rate of prime plus 2% per annum. Both of these interest rates are adjustable in accordance with the terms of the loan documents. The loan is primarily secured by a pledge of the Micronet shares we hold through Enertec, which were previously pledged to UTA but were released in connection with the partial repayment. In addition, our other subsidiaries provided a guarantee of Enertec Electronic's obligations under the loan documents.

Enertec has covenanted under certain bank loans that (i) its shareholders' equity according to its financial statements will not be below 18,000,000 NIS, and (ii) its shareholders' equity will not be lower than 30% of the total liabilities on its balance sheet. Enertec Electronics has also covenanted under a certain bank loan that (i) Micronet's equity will not be lower than 25,000,000 NIS (approximately \$6,500,000), (ii) Micronet's cash level will not be lower than 5,000,000 NIS (approximately \$1,300,000), and (iii) Micronet will maintain a financial debt to EBITDA ratio not to exceed 2:1. Enertec and Micronet have met all of their bank covenants. As of September 30, 2012, the shareholders' equity of Enertec Systems was 21,450,000 NIS which constitutes 50% of the total liabilities on its balance sheet. As of

September 30, 2012 (i) the shareholders' equity of Micronet was 53,836,000 NIS which constitutes 62.61% of the total liabilities on its balance sheet, (ii) Micronet's cash and cash equivalents was 35,858,000 NIS (approximately \$9,166,000) and (iii) Micronet's financial debt to EBITDA ratio was approximately 1:4.

## Financing Needs

Although we currently do not have any material commitments for capital expenditures, we expect our capital requirements to increase over the next several years as we continue to support the organic and non-organic growth of our business. Among other activities, we plan to develop, manufacture and market larger-scale solutions, support our growing manufacturing and finance needs, continue the development and testing of our suite of products and systems, increase management, marketing and administration infrastructure, and embark on developing in-house business capabilities and facilities. Our future liquidity and capital funding requirements will depend on numerous factors, including, but not limited to (i) the levels and costs of our research and development initiatives, (ii) the cost of hiring and training additional highly skilled professionals (mainly engineers and technicians), qualified stronger management, and sales and marketing personnel to promote our products, and (iii) the cost and timing of the expansion of our development, manufacturing and marketing efforts.

Based on our current business plan, we anticipate that our cash balances, including the net proceeds from this offering and cash generated from future sales will be sufficient to permit us to conduct our operations and to carry out our contemplated business plans for the next twelve months. However, this offering is intended to better enable Lapis to grow and meet its future operating and capital requirements. Currently, the only external sources of liquidity are our banks, and we may seek additional financing from them or through securities offerings to expand our operations, using new capital to develop new products, enhance existing products or respond to competitive pressures.

## Results of Operations

### Three and Nine Months Ended September 30, 2012 Compared to Three and Nine Months Ended September 30, 2011

Revenues for the three and nine months ended September 30, 2012 were \$3,780,000 and \$8,212,000 as compared to \$2,973,000 and \$6,947,000 for the three and nine months ended September 30, 2011, respectively. This represents an increase of \$807,000, or 27%, for the quarter ended September 30, 2012 and an increase of \$1,265,000, or 18%, for the nine months ended September 30, 2012, when compared to the same periods of 2011. The increase in revenue is primarily due to consolidating Micronet's financial results following the Acquisition in September 2012. Micronet contributed \$1,400,000 to our consolidated revenues for the three and nine months ended September 30, 2012, while Enertec accounted for a decrease in revenues of \$593,000 and \$135,000 for the three and nine months ended September 30, 2012, respectively. Such decrease in Enertec's revenues was primarily due to making less progress on long-term projects as measured by percentage of completion of such projects. Long-term projects are those projects for which we deliver turnkey military and automatic test systems based on customer specifications and for which revenues are recognized based on the percentage of completion of such projects.

Gross profit decreased by \$445,000 and by \$561,000, to \$678,000 and \$2,195,000 for the three and nine months ended September 30, 2012 as compared to \$1,123,000 and \$ 2,756,000 for the three and nine months ended September 30, 2011, respectively. The decrease in gross profit is due to the one-time depreciation of fair value of inventory in connection with the Acquisition in the amount of \$703,000. Excluding the one-time depreciation of fair value of inventory, gross profit would have increased to \$1,381,000 and \$2,898,000 for the three and nine months ended September 30, 2012, respectively.

Gross profit as a percentage of sales was 18% and 27 % for the three and nine month period ended September 30, 2012 compared to 38% and 40% for the three and nine month periods ended September 30, 2011, respectively. As explained above, the decrease in gross profit is primarily attributable to the depreciation of fair value of inventory in connection with the Acquisition.



### Selling and marketing

Selling and marketing costs are part of operating expenses. Selling and marketing costs for the three and nine months ended September 30, 2012 were \$154 and \$329, respectively, as compared to \$86 and \$304 for the three and nine months ended September 30, 2011, respectively. The increase is primarily due to operations of Micronet which accounted for \$85 of the increase in selling and marketing costs for the three and nine months ended September 30, 2012.

### General and administrative

General and administrative costs are part of operating expenses. General and administrative costs for the three and nine months ended September 30, 2012 were \$428,000 and \$1,209,000 as compared with \$365,000 and \$931,000 for the three and nine months ended September 30, 2011. The increase in the general and administrative costs is primarily due to the operations of Micronet which accounted for \$146,000 of the increase in the general and administrative costs for the three and nine months ended September 30, 2012 as compared with the three and nine months ended September 30, 2011.

### Research and Development Costs

Research and development costs are part of operating expenses. Research and development costs for the three and nine months ended September 30, 2012 were \$177,000, or 4.7% of sales, and \$286,000, or 3.48% of sales, compared to \$63,000, or 2.1% of sales and \$184,000, or 2.6% of sales, for the three and nine months ended September 30, 2011, respectively. The increase in research and development is primarily due to the operations of Micronet, which accounted for \$126,000 of the increase in research and development costs for the three and nine months ended September 30, 2012 as compared with the three and nine months ended September 30, 2011. Since Micronet invests a larger portion of its income in research and development than Lapis, management believes that there will be an increase in our research and development costs estimated to be up to approximately 8% of income in at least the near term.

### Operating Expenses

For the three and nine month periods ended September 30, 2012, operating expenses totaled \$790,000 and \$1,855,000, respectively, which represents an increase of \$276,000, or 54%, compared to an increase of \$436,000, or 31%, resulting from operating expenses totaling \$514,000 and \$1,419,000 for the three and nine month periods ended September 30, 2011, respectively. The increase in operating expenses during both periods as explained above is the result of consolidating Micronet's operating expenses following the Acquisition.

### Interest expense, net

Interest expense, net for the three and nine months ended September 30, 2012 was \$840,000 and \$1,240,000 compared to \$233,000 and \$398,000, respectively, for the three and nine months ended September 30, 2011. The increase in interest expense is mainly due to the change in fair value of outstanding warrants issued in connection with the UTA loan transactions which amounted to \$623,000 for the nine months ended September 30, 2012.

### Gain on bargain purchase

Following the Acquisition, we performed an independent valuation and as a result we determined that there was a gain on bargain purchase in connection with the Acquisition. We determined that the fair values of assets acquired pursuant to the Acquisition exceeded the purchase price by approximately \$4,623,000, which was recorded as a bargain purchase gain, and is shown as a separate component of non operating income. The gain is not a taxable

income event for tax purposes. Management's determination that a gain should be recorded was based largely on the following:

- Micronet is a publicly-traded company on the Tel Aviv Stock Exchange, or TASE. The purchase price takes into consideration the average price per Micronet share for the 12 month period prior to the Closing Date. The average price per Micronet share for the 12 month period prior to the Closing Date was approximately 2.2 NIS, whereas the purchase price was 2.1 NIS.
- In addition to the cash consideration paid in the transaction as aforementioned, additional consideration for the Sellers is attributable to their expectation that the new controlling shareholders of Micronet together with the management team, will be able to use their experience, abilities and expertise to increase Micronet's value and thereby increase the value of the remaining shares held by the Sellers. Accordingly, the transaction was structured so that the Sellers continue to be stockholders of Micronet. The Sellers hold approximately 30% of the company's outstanding share capital following the Acquisition.

Our net income attributable to Lapis was \$4,060,000 and \$4,087,000 in the three and nine months ended September 30, 2012, respectively, compared to net income attributable to Lapis of \$361,000 and \$863,000 in the three and nine months ended September 30, 2011, respectively. This represents an increase in net income of \$3,699,000 and \$3,224,000 compared to the three and nine month periods ended September 30, 2011, respectively. The increase was primarily the result of the gain on bargain purchase of Micronet pursuant to the Acquisition as discussed above.

#### Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenues for the year ended December 31, 2011 were \$10,146,000 as compared to \$11,106,000 for the year ended December 31, 2010. This represents a decrease of \$960,000 or 8.6% for the year ended December 31, 2011. The decrease in revenues for the year ended December 31, 2011 as compared to the same period of 2010 is mainly due to the fact that we have begun various long term projects which are scheduled to be completed in 2013.

During 2011, Micronet launched a new line of products (the CE500 series) and commenced sales to strategic customers, significantly increasing its revenues in 2011 and 2012. During the nine months ended September 30, 2012, Micronet sold 54,000 devices, compared to 24,000 devices during the nine months ended September 30, 2011 and 37,000 devices during fiscal year 2011. Its total revenue for the nine months ended September 30, 2012 increased by approximately \$14.5 million or 226%, as compared to the nine months ended September 30, 2011. U.S. revenue was approximately 94% of the total revenue in the nine months ended September 30, 2012 as compared to approximately 84% of the total revenue in the nine months ended September 30, 2011. The increase in U.S. revenue from fiscal year 2011 to 2012 was primarily attributable to orders from our largest customer in the United States, PeopleNet. The increase in revenue from fiscal 2011 to 2012 is also partially attributable to upgrades and optimization of the manufacturing and delivery capabilities of Micronet which enabled us to recognize revenues upon delivery on an expedited basis.

Gross profit totaled approximately \$3,849,000 for the year ended December 31, 2011 as compared to \$4,925,000 for the year ended December 31, 2010. This decrease of \$1,076,000 in gross profit represents a decrease of 21.8%. The decrease in gross profit is primarily the result of a decrease in sales revenues.

Gross profit as a percentage of sales was 38% and 44% for the year ended December 31, 2011 and December 31, 2010, respectively.

For the years ended December 31, 2011 and 2010, operating expenses totaled \$1,956,000 and \$2,094,000, respectively. This was a decrease of \$138,000, or 6.5%, compared to the year ended December 31, 2010. This decrease in operating expenses is primarily due to the acquisition by DLC of a controlling stake in Lapis in November 2009 and the increased general and administrative expenses incurred as a result of expenditures in connection with strengthening the corporate infrastructure that were made in 2010 but not in 2011, and partially offset by an increase in selling expenses of \$43,000 for the year ended December 31, 2011 compared to the same period of 2010, primarily due to Lapis's efforts to increase marketing efforts for more projects and new customers.

Our net income was \$1,359,000 for the year ended December 31, 2011 compared to a net income of \$1,619,000 in the year ended December 31, 2010. This represents a decrease in net income of \$260,000 or 16%. The decrease was primarily the result of interest expenses related to warrant liability (approximately 31% from the decrease of \$260,000 in net income).

As of December 31, 2011, we had two customers that accounted for approximately 91% of our accounts receivable.

#### Research and Development Costs

Research and development costs are part of operating expenses. Research and development costs for the year ended December 31, 2011 and the year ended December 31, 2010 were \$240,000 and \$250,000, respectively.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect that is material to investors on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.



## Critical Accounting Policies

**Principles of consolidation.** The consolidated financial statements comprise the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating activities. In assessing control legal and contractual rights are taken into account. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany transactions and balances are eliminated upon consolidation.

**Accounts receivable and allowances for doubtful accounts.** Our trade receivables include amounts due from customers. We perform ongoing credit evaluations of our customers' financial condition and we require collateral as deemed necessary. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make payments. In judging the adequacy of the allowance for doubtful accounts, we consider multiple factors including the aging of our receivables, historical bad debt experience and the general economic environment. Management applies considerable judgment in assessing the realization of receivables, including assessing the probability of collection and the current creditworthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**Impairment of long-lived assets.** In accordance with ASC 360-10, "Accounting for the Impairment or Disposal of Long-lived Assets," long-lived assets, such as property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying value of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying value of the asset exceeds the fair value of the asset.

**Revenue recognition.** The Company enters into long-term fixed-price contracts with customers to manufacture test systems, simulators, and airborne applications. Revenue on these long-term fixed-price contracts is recognized under the percentage-of-completion method. In using the percentage of completion method, revenues are recorded based on the percentage of completion incurred to date on a contract relative to the estimated total expected contract completion. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish the total estimated costs. The percentage of completion is established by the costs incurred to date as a percentage of the estimated total costs of each contract (cost-to-cost method). Contract costs include all direct material and labor costs and those indirect costs related to contract performance. The Company begins recognizing revenue on a project when persuasive evidence of an arrangement exists, recoverability is probable, and project costs are incurred. The Company recognizes contract losses, if any, in the period in which they first became evident.

Revenues from the sales of MRM products are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee payable by the customer is fixed and determinable; and collection of the resulting receivable is reasonably assured. The title and risk of loss passes to the customer, delivery has occurred and acceptance is satisfied once the product leaves the Company premises.

**Income taxes.** The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Accounting for uncertainty in income taxes requires that tax benefits recognized in the financial statements must be at least more likely than not of being sustained based on technical merits. The amount of benefits recorded for these positions is measured as the largest benefit more likely than not to be sustained. Significant judgment is required in making these determinations. As of September 30, 2012, there are no unrecognized tax benefits. Deferred taxes and liabilities are determined utilizing the "asset and liability" method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and the tax basis

of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We provide a valuation allowance, when it is more likely than not that deferred tax assets will not be realized in the foreseeable future. In calculating our deferred taxes and liabilities we are taking into account various estimates, which are examined and if necessary adjusted on a quarterly basis, regarding our future utilization of future carry forward losses.

### Recent Accounting Pronouncements

New Accounting Standards Adopted in 2012. Effective January 1, 2012, the Company retrospectively adopted ASU 2011-05, Presentation of Comprehensive Income, as amended by ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. This update requires entities to present comprehensive income either in a single continuous financial statement or in two separate but consecutive statements. Entities no longer have the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity. The Company's adoption of this update did not have a material impact on our financial statements and resulted only in the accompanying Condensed Statements of Comprehensive Income as required by these new accounting standards.

New Accounting Standards Yet to be Adopted. There are no new standards required to be adopted in future periods that will have a material impact on our financial statements.

## BUSINESS

We are a Delaware corporation that was formed on January 31, 2002. We operate through two Israel-based companies, Enertec, our wholly-owned subsidiary, and Micronet, in which we have a controlling interest, which develop, manufacture, integrate and globally market rugged computers, tablets and computer-based systems and instruments for the commercial, defense and aerospace markets. Our products, solutions and services are designed to perform in severe environments and battlefield conditions.

Micronet operates in the growing commercial MRM market. Micronet designs, develops, manufactures and sells rugged mobile computing devices that provide fleet operators and field workforces with computing solutions in challenging work environments. Micronet's vehicle cabin installed and portable tablets increase workforce productivity and enhance corporate efficiency by offering computing power and communication capabilities that provide fleet operators with visibility into vehicle location, fuel usage, speed and mileage. Micronet's customers consist primarily of ASPs and solution providers specializing in the MRM market. Currently, Micronet does not sell to end-users. Its customers are generally MRM solution and service providers, such as Trimble, primarily through its subsidiary PeopleNet, and XRS Corporation. These companies sell Micronet's products as part of their MRM systems and solutions. Micronet has customers in 20 countries. The United States currently constitutes its largest market, representing approximately 84% of revenue for the year ended December 31, 2011 and 94% for the nine months ended September 30, 2012. For the year ended December 31, 2011, Micronet's largest customer was PeopleNet, which represented approximately 39% of its revenues. The next largest customer represented approximately 16% of its revenues. For the nine months ended September 30, 2012, Trimble and PeopleNet combined, represented approximately 73% of Micronet's revenues. In the nine months ended September 30, 2012 no other customer accounted for more than 9% of Micronet's revenue. We acquired control of Micronet in September 2012 and until January 21, 2013 we owned 50.1% of Micronet. On January 21, 2013, each of Micronet's Chairman of the board of directors and Chief Executive Officer exercised certain options to purchase Micronet ordinary shares. As a result, our ownership of Micronet shares was diluted from 50.1% to 48.06%. We are currently considering exercising certain options we own to buy additional Micronet ordinary shares and increase our percentage ownership of Micronet to 50.1%.

Enertec operates in the Defense and Aerospace markets and designs, develops, manufactures and supplies various customized military computer-based systems, simulators, automatic test equipment and electronic instruments. Enertec's solutions and systems are designed according to major aerospace integrators' requirements and are integrated by them into critical systems such as command and control, missile fire control, maintenance of military aircraft and missiles for use by the Israeli Air Force and Navy and by foreign defense entities. Approximately 65 % of our revenues for the year ended December 31, 2011 were from independent business units or groups within IAI, the leading Israeli defense system integrator, and approximately 26% were from business units of Rafael, another Israeli state-owned major defense developer and integrator of critical weapon systems. For the nine months ended September 30, 2012, IAI represented approximately 79% and Rafael represented approximately 12% of Enertec's revenues, respectively. These distinct units and groups create diversity to our business and revenue streams. The system integrators that are our primary customers market their solutions throughout the world and across the full spectrum of military applications (land, sea, air). Command and fire control systems represented approximately 74% of Enertec's revenues for the year ended December 31, 2011 and 75% for the nine months ended September 30, 2012 and our automated test equipment represented 22% of Enertec's revenues for the year ended December 31, 2011 and for the nine months ended September 30, 2012.

Management believes that the demand for our products, systems and solutions is not affected significantly by fluctuations in any particular geographic market outside the State of Israel because our products, systems and solutions can be tailored to fit the needs of these different disciplines and are not limited to any specific geography.

Our strategy focuses on continued internal growth through diligent efforts in our traditional growing markets with new technologies and innovative systems and products, as well as the development of new potential segments and markets. To enhance our growth, we also look for appropriate acquisitions to complement and expand our offerings, support our goals and increase our competitive strengths. We concentrate the majority of our resources, including our marketing and sales efforts, in the United States, Israeli and European markets and the large growing Indian defense market.

In order to sell into the Indian defense market, in 2011, we entered into an agreement establishing a new joint venture with Amtek, a leading Indian industrial group, to market, manufacture and sell systems and solutions in India based on Enertec's technological and engineering capabilities. Amtek organized and is operating the joint venture entity. However, our investment is subject to the approval of FIPB. We have submitted all necessary application materials and are awaiting the FIPB's approval of our application to acquire our ownership stake. Management believes that the joint venture will enable us to deliver additional solutions to current and potential customers to satisfy their local procurement obligations in India that derive from their sales to Indian governmental entities. The joint venture also has the potential to create new sales opportunities in India and nearby markets.

#### Subsidiaries

We have three subsidiaries and a controlling interest in Micronet. Lapis is the sole owner of Enertec Electronics, which, on October 17, 2010, in line with its strategy to focus on its main business, sold all of its assets and business in the field of marketing and distribution of civil power supplies, related third party power products, power supply testing equipment for an aggregate consideration of 1,020,000 NIS (approximately \$278,000) and consequently became a holding company.

Enertec Electronics, directly and indirectly, is the holder of our current business operations as follows:

- Enertec, which in March 2011 became a wholly-owned subsidiary of Enertec Management Ltd., a private Israeli company wholly owned by Enertec Electronics.
- Micronet, an Israel-based manufacturer and developer of rugged computers, tablets and computer based systems whose shares are traded on the TASE, in which we acquired a controlling interest in September 2012 through Enertec Electronics' acquisition of the controlling interest of Micronet. We currently own 48.06% of its outstanding common shares.

#### Enertec

Enertec designs, develops and manufactures computer based instruments and electronic solutions designed to perform in severe environments and battlefield conditions, primarily for military use on land, air and sea. Enertec's products are grouped into two material product lines: computer-based command and fire control systems and automatic test equipment. These product lines generate approximately 90% of Enertec's annual revenues. The command and fire control systems are integrated in air defense missiles and other weapon systems and are designed to operate in severe environments. The automatic test equipment line includes a variety of test systems and simulators that test and assure combat readiness of aircraft and missiles. Enertec's solutions and systems are tailored to customers' specifications and are, or are integrated into, critical weapon systems. Among our main solutions are:

- ruggedized portable command and control systems
  - command and control stations
  - fire control systems for missiles
  - military aircraft support systems
  - missile simulators

Enertec holds high security clearance in Israel for the most sensitive defense programs. Our solutions and systems are used by the Israeli Air Force and Navy and by other foreign defense entities served by our customers.

Enertec's quality control systems are ISO9000:2008 compliant. ISO9000:2008 is the international standard for quality assurance and quality design. This standard is important to customers that order custom-made products and is made up of a combination of quality system requirements.

Enertec generates revenue mostly through funded development, which involves the development of a small number of products for evaluation and anticipated production, and through direct sales from the mass production of its developed product. Enertec generates additional revenue from the customization and upgrades to its products.

## New products

In addition to our traditional systems and products, we have been developing new systems, solutions and products in the following areas: (i) operationally resilient computers integrated into various weapon systems, (ii) missile launch platforms, (iii) command and control systems, and (iv) missile communications systems. These systems utilize advanced know-how developed by Enerotec's trained and highly-skilled technical personnel. Management believes that Enerotec's know-how and expertise will enable us to further increase our offerings to existing and other customers' strategic projects in land, air and sea.

## Market conditions

The defense and homeland security market, in which we operate through Enerotec, includes the design and manufacturing of electronic systems developed to enhance large-scale military land, airborne and seaborne tactical platforms. These systems include military computer based systems, simulators, automatic test equipment and electronic instruments that are used or integrated in critical weapon systems such as command and control systems, missile fire control systems, support military aircraft systems and other defense systems and equipment such as night visions systems, UAV systems, laser products, airborne photography measures, processing and display of data systems and communications systems. In the Israeli defense market, Israeli providers supply a significant portion of their products to the Israeli defense forces specifically in view of the continuing defense needs of the State of Israel. However, the Israeli defense industry is also a well respected exporter of its products to armies and security forces worldwide and such international markets provide for stable demand for military and security products.

## Marketing strategies

Our sales and marketing efforts focus on developing new business opportunities as well as generating follow-on sales from our existing customers. Our sales efforts are generated primarily through our internal sales team, although we also retain third-party selling agents from time to time. Various members of our senior management also serve as effective sales representatives who contribute to the generation of military and corporate business due to their long-standing customer relationships and knowledge of our customers' mission-critical requirements. We continue to explore various Israeli and international business partnerships to increase our sales and market penetration. We actively participate in trade shows involving technology and electronics defense operations. Recently we entered into an agreement to establish a new joint venture in India which will be used as a marketing, manufacturing and sales platform for our products, systems and solutions in India, Asia and other parts of the world. Additionally, our business development efforts include our website, preparation and distribution of marketing materials, advertising directed toward the defense and homeland security market and product demonstrations.

Our strategy is to anticipate the needs of our clients, to make investments in research and development and initiate development of those products and solutions that we believe will meet their needs. By doing so, we shorten our time to market and gain an edge on our competition. Furthermore, we have been able to identify those current and potential clients that we believe are likely to place large orders, and we focus our attention on developing our relationship with them. When successful, we are in an excellent position to offer both basic and advanced, sophisticated products enabling us to expand our relationship with these clients and resulting in additional revenue streams. In these cases, deepening our relationship with our clients creates the opportunity to incorporate our solutions into our customers' core components and critical systems. By continuously diversifying into new and more complex products and fully scaled systems, we have been able to set Enerotec apart from its competition. We also continue to increase our suite of custom products based on our proprietary designs and technologies. These products are core components of several long-term military programs spearheaded by our customers, with expected purchase lifecycles over periods of up to 10 years.

## Customers



Enertec's customers are primarily leading Israeli defense system integrators. The system integrators' customers are various defense ministries of Israel and other countries worldwide. The balance of our sales is made directly to the Israeli Ministry of Defense and armed forces that place direct orders.

Approximately 90% of our annual revenues in the past two years were from independent business units or groups within Rafael and the IAI, the two leading Israeli defense system integrators. These distinct units and group create diversity to our business and revenue streams.

The system integrators that are our primary customers market their solutions throughout the world and across the full spectrum of military applications (land, sea and air). Management believes that the demand for our products, systems and solutions is not affected significantly by fluctuations in any particular geographic market outside the State of Israel because our products, systems and solutions can be tailored to fit the needs of these different disciplines and are not limited to any specific geography.

### Backlog

As of September 30, 2012, Enertec had a backlog of orders for our systems, products and services in the amount of approximately \$10.5 million (including \$0.6 million in framework orders, which are orders that can be exercised from time to time but are an obligation of ours for the entire amount). As of December 31, 2011, Enertec had a backlog of orders for our systems, products and services in the amount of approximately \$11.5 million (including \$2.8 million in framework orders) as compared to a backlog of approximately \$13.3 million as of December 31, 2010 (including \$2.9 million in framework orders).

### Competition

The defense market in which we operate through Enertec is fractured and our main competition comes from customers' internal development and manufacturing divisions and a number of relatively small Israeli companies that specialize in electronic systems.

### Suppliers

Our suppliers are diversified, and we are not dependent upon a limited number of suppliers for essential raw materials, components, services or other items. In order for us to maintain the standards required by our customers, we require that our suppliers be well-established, with facilities and manufacturing abilities that comply with our relevant standards. Although we are not dependent on any one supplier, disruptions in normal business arrangements due to the loss of one or a few suppliers could adversely affect us. Disruptions also may be experienced if our existing suppliers are no longer able to meet our requirements or if there is an industry shortage of electronic or mechanical components. Not only could these disruptions limit our production capacity, but also, if there is a shortage of components, such disruption could result in higher costs. The raw materials we use are either electronic components purchased from suppliers, or mechanical components primarily manufactured by local subcontractors.

### Employees

As of September 30, 2012, we had approximately 81 full-time employees at Enertec. Of these employees, 56% are employed in engineering and manufacturing positions, and the remainder are employed in sales, management and administrative positions. Our employees are not represented by any collective bargaining agreement, and we have never experienced a work stoppage. We believe we have good relations with our employees.

Israeli labor laws and regulations apply to all employees based in Israel. The laws principally concern matters such as paid vacation, paid sick days, length of the workday, payment for overtime and severance payments upon the retirement or death of an employee or termination of employment under specified circumstances. The severance payments may be funded, in whole or in part, through a managers' insurance fund or a pension fund. The payments to the managers' insurance fund or pension fund toward severance amount to 8.3% of wages. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute of Israel. Since

January 1, 1995, these amounts also include payments for health insurance. The payments to the National Insurance Institute amount to approximately 14.5% of wages, of which the employee contributes 66% and the employer contributes 34%.

#### Research and development expenditures

Research and development costs totaled approximately \$240,000 and \$250,000 for the years ended December 31, 2011 and 2010, respectively, which equates to approximately 2% of revenues for each period. These expenditures have adequately satisfied our research and development requirements. We expect similar research and development costs for the year ended December 31, 2012. We are using our engineering resources to research and design new technologies that we expect to implement into the new projects and large military programs of our core customers.

#### Seasonal aspects of our business

The sales of military products experience seasonal variations because the Israeli Ministry of Defense frequently delays project approvals until near the end of the fiscal year. Therefore, new orders to the military suppliers, including Enertec, are delayed until the second half of the year. In addition, some of our customers require increased deliveries during the last weeks of the year in order to fulfill contractual delivery obligations to their own customers. As a result, we often experience an increase in our fourth quarter sales relative to sales in other quarters.

#### Intellectual property

Although we are not dependent on patents or trademark protection with regard to Enertec's business and do not expect to be at any time in the future, proprietary rights are important to Enertec's business because its ability to remain competitive in the market is dependent to a significant degree on its proprietary solutions and products and the technology on which they are based. To protect its proprietary rights, Enertec primarily relies on a combination of copyright and trade secret laws, internal know-how, technological innovations and agreements with third parties, such as license agreements. In addition, Enertec employs internal controls such as the use of confidentiality and non-disclosure agreements. Enertec believes its proprietary technology incorporates processes, know-how, methods, algorithms, hardware and software that are the result of more than ten years of experience resulting in in-house expertise and thus are not easily copied. Further, most of the production process is performed in-house with the exception of certain components that are manufactured by subcontractors. This limited outsourcing process allows Enertec to maintain the majority of its proprietary information and know-how within the company and lowers its exposure to the risk of its technology solutions being copied or used by any third parties.

Enertec's management, together with its research and development team, closely and continuously monitor the technological developments in the market. Enertec considers and evaluates on an ad hoc basis whether technology and proprietary assets should be acquired through independent in-house development or through the purchase of patent or other technology licenses.

#### Regulation

Enertec's electronic products must comply with the UL standards of the United States and CE standards of Europe to be eligible for sale in the respective countries subject to these standards. Each system must be tested, qualified and labeled under the relevant standards. This is a complicated and expensive process and once completed, the approved product may not be altered for sale.

#### Properties

Enertec's properties consist of leased combined office and manufacturing facilities used for sales, support, research and development, manufacturing, and our headquarters (management and administrative personnel). Enertec's offices and facilities currently consist of approximately 25,000 square feet located in Karmiel, in the north of Israel leased at approximately \$200,000 per year. The lease term expires in June 2021, subject to two five-year extension options and

early termination provision after five years, which we hold. We believe that Enertec's present facilities are suitable for its existing and projected operations for the near future.

#### Legal proceedings

Enertec is not subject to any legal proceedings that have materially affected, or are reasonably likely to materially affect, our business or financial position.

## Micronet

Micronet is based in Azor, Israel, near Tel Aviv and is engaged in the design, development, manufacture and global marketing of rugged, automotive-grade, mobile computing devices for fleet and workforce management solutions. Micronet operates in the MRM market. Micronet's vehicle cabin installed and portable tablets increase workforce productivity and enhance corporate efficiency by offering computing power and communication capabilities that provide fleet operators with visibility into vehicle location, fuel usage, speed and mileage.

Micronet conducts its sales and support activities through its Israeli facilities in conjunction with sales offices in the United States and the United Kingdom. Micronet's customers are leading international MRM solution and service providers. The company maintains an in-house research and development staff and operates an ISO 9001-2008 certified manufacturing facility. With the exception of certain components purchased from subcontractors, Micronet manufactures its products and solutions using its own facilities, capabilities and resources, which enables it to control and manage the manufacturing process. Micronet combines more than 20 years of experience in the industry with strong technical capabilities to provide a broad range of products and solutions that have met the rigorous standards of our clients.

Micronet's ruggedized mobile computing devices are designed and manufactured to fit the special requirements of the MRM market, enabling customers to operate in challenging work environments, such as extreme temperatures, repeated vibrations or dirty and wet or dusty conditions. Micronet's products, in conjunction with available third-party mobile applications solutions, provide fleet operators with real-time visibility into vehicle location, fuel usage, speed and mileage, as well as other insights into their mobile workforce, reducing operating and capital costs while increasing revenue. Micronet's products are used in a wide range of MRM industry sectors, including:

- haulage and distribution, which includes short- and long- haul trucking and distribution servicing of urban retail and wholesale needs, such as delivery of packages, parts and similar items;
  - public transport, which refers mainly to buses, para-transit, taxis and limousine services;
- construction, which refers to vehicle fleets that are involved in the construction industry such as cement trucks and heavy equipment;
- service industries, which include insurance companies, rental car companies and other companies operating large mobile service force of technicians, installers and similar personnel;
  - municipalities, which include waste management and field workers such as public works; and
  - public safety services, which includes fire departments, ambulances, police and forestry.

Micronet's products are fully programmable and provide customers with the operational flexibility to customize such products for their ongoing needs via a comprehensive development tool kit package that enables them to develop independently and support their own industry-specific applications and solutions.

Micronet's strategy is to continue to leverage its market position in the U.S. and European markets, to become a market leader for MRM products and services.

## Recent developments

During 2011, Micronet launched a new line of products (the CE500 series) and commenced sales to strategic customers, which significantly increased its revenues in 2011 and the nine months ended September 30, 2012. Micronet believes that awareness and demand for MRM solutions is significantly increasing as customers seek to optimize their mobile asset utilization of commercial vehicle fleets and enhance workforce productivity and customer satisfaction.

During the nine months ended September 30, 2012, Micronet sold 54,000 devices, compared to 24,000 devices during the nine months ended September 30, 2011 and 37,000 devices during fiscal year 2011. Its total revenue for the nine months ended September 30, 2012 increased by approximately \$14.5 million or 226%, as compared to the nine months ended September 30, 2011. U.S. revenue was approximately 94% of the total revenue in the nine months ended September 30, 2012 as compared to approximately 84% of the total revenue in the nine months ended September 30, 2011. The increase in U.S. revenue from fiscal year 2011 to 2012 was primarily attributable to orders from our largest customer in the U.S.

Micronet's key initiatives for future revenue growth include the following:

- Expanding sales activities in the North American and European markets.
- Establishing strong relationships with new European and U.S. tier 1 customers and partners.
- Upgrading and enhancing current products and engaging in new product development based on input from clients and partners.
- Partnering with major truck manufacturers to develop a built-in, fit-to-purpose original equipment manufacturer, or OEM, platform.

Developments in the communication market in recent years have enabled Micronet to integrate its products into new standard technologies, which have reduced communication costs and extended availability, thereby increasing the demand for Micronet's products and solutions. Micronet has made significant investments in its facilities, infrastructures and manufacturing capabilities and has made product enhancements and strengthened functionality.

Micronet is at the pre-release stage of a new product, the CE300, which is designed to satisfy the needs of certain strategic customers using its current CE500 models. The CE300 aims to provide customers with enhanced features and capabilities, optimized for their specific requirements, at a lower cost than the CE500.

#### Market opportunity

Management believes that Micronet is well positioned to pursue a substantial market opportunity. The MRM market, in which we operate through Micronet, is growing and researchers forecast it will continue its double digit growth in the coming years. The Driscoll Licht Report estimated that in 2012 globally there were approximately 13.8 million subscribers to MRM services and forecasted that the number of subscribers will grow to approximately 32 million by 2016.

Further, as outlined in the Driscoll Licht Report, in the United States, which historically has been Micronet's largest market, there are currently approximately 5.7 million mobile data devices in service in MRM systems, which number is projected to grow to approximately 9.0 million by the end of 2015. In 2011, the global penetration rate of MRM systems was approximately 7%. The global penetration rate is forecasted to grow to approximately 14% by 2016. In the United States, which is the most advanced market, the penetration rate was approximately 15% in 2011. According to the Driscoll Licht Report, based on market, technology and regulatory developments in the past several years, the U.S. market penetration rate is projected to reach approximately 27% of all fleets by 2016.

#### Products and Services

Micronet currently offers mobile computing devices grouped in three broad categories: Entry Level, Mid-Range and Advanced, that range from basic display products for two-way messaging communication to the CE-500 series, available in a variety of product configurations with greater functionality. For the nine months ended September 30,



2012, its Advanced products represented approximately 90% of its revenues.

Advanced products (covers our premier tablet computers that have higher level of capability and functionality and are offered at high-end prices)

- CE500 series. Micronet's latest product line was launched in 2011. It is a Microsoft WinCE based mobile computing platform, specifically designed for vehicle cabin mounted rugged computer and portable MRM applications. It offers either 7-inch (CE-507) or 4.3-inch (CE-504) touch color screens, fixed or portable. The platform features Microsoft Windows Embedded CE 6 operating system, supporting Compact Framework 3.5, and offers a comprehensive development environment for independent application programming and system integration. Its original layered architecture makes the CE-series highly modular and scalable, allowing for variable factory-set configurations by using plug-in modules. This cost effective design simplifies maintenance tasks, significantly extends product life expectancy and lowers total cost of ownership.
- CE300 series. Novel layered architecture enables OEMs, and telematics services providers, to remotely track the location and movements of vehicles and other assets, with a rugged, versatile, vehicle-centric and fixed-mount or portable mobile-computing platform for a variety of MRM applications.

Both models feature multiple, integrated wireless options: Quad band GPRS modem, GPS, Wi-Fi, and Bluetooth. All wireless options come with internal antennae. Physical interface options on these models include: USB, Serial RS-232 ports, dedicated interface for Dallas ID button reader, analog inputs, multiple digital inputs and outputs, and control signals for vehicle connectivity. Micronet sells a development package for independent application development for the CE500 series. Micronet's management expects that the CE300 series will have its commercial launch in March 2013.

Development Tool Kit. Micronet's development package, also called Development Tool Kit, or DTK, is intended for customers who wish to develop their own applications and to support automatic vehicle location, or AVL / fleet management. The development package provides all the tools required for application development quick-start, product testing and product evaluation. ASPs, Value Added Resellers, Solution Providers and System Integrators, specializing in MRM, Asset Control, and Real Time Vehicle Data Monitoring rely on Micronet's flexible and cost-effective systems to supplement their AVL / fleet management, and Computer Aided Dispatching hardware and software solutions.

Enhanced Technical Support and Professional Services. Micronet provides enhanced technical support and expert development services, designed to facilitate its customers' development work in connection with Micronet's systems and reduce time to market. Technical and support services are offered in three levels of service:

- DTK Support: Standard support, offered at no extra charge, to customers that purchase Micronet's DTKs.
- Developer Support Services: Consultation by engineers on application development and integration tasks. The service is offered on a retainer basis and includes code review, debugging and software and hardware engineering consultation.
- Professional Services - Custom Development: Custom software application development and integration services, that are quoted based on specific customer requirements, and managed by a Micronet project manager. Includes application design and system analysis, programming and integration, documentation and maintenance.

Mid-Range products (covers our products with mid-range level of capability and functionality that are offered at mid-range market prices):

- Net-960CE-S. Micronet's Net-960CE-S product family features an advanced WinCE.NET (supporting compact framework) development environment. Standard product configurations support an extended range of optional

features and functions. These include wireless interfaces like GPS, GPRS, Wi-Fi, Disk on Chip and Bluetooth, as well as multiple vehicle I/O interfaces, communications and connectivity ports (USB, RS-232, J1708, CANBus) and support of peripheral devices, including an external, independent, 3rd party colored screen. The Net-960CE-S models are offered with a comprehensive DTK and software development packages for independent application development, backed by our technical support team.

- Net-960CE-X. Micronet's Net-960CE-X product family is a low-budget WinCE-based platform, utilizing C, C++, and Win32 API. It is designed as a rugged fixed-mount enclosure platform with advanced electronics. The Net-960CE-X platform features various interfaces, supporting peripheral devices, vehicle I/Os and wireless communication options, including built-in GPS and GPRS. The Net-960CE-X models are offered with a comprehensive Net-960CE-X DTK and software development kit, or SDK, for independent application development, supported by our technical support team.

Entry Level products (covers our more economical products with lower level of capability and functionality and offered at lower prices):

- M Series (M100 and M200/M201). Micronet's M-Series is a powerful, yet highly economical line of products, designed to enable versatile vehicle cabin-mounted rugged computer MRM applications. The M-Series is based on ThreadX, an advanced embedded, multithreading real time operating system. In the framework of the M-Series, Micronet offers two standard configurations: fixed mounted and detachable. A DTK and SDK are available, for independent integration and application development.
- Net-960CE. The Net-960E, based on Microsoft Windows CE, includes a range of features, rugged fixed-mount enclosure, advanced electronics and an open Microsoft-standards-based development environment that is highly versatile and scalable. The Net-960E is used for a variety of applications: driver log, interactive messaging, dispatch, status and form based reports. It offers connectivity through 2 RS-232 ports and I/Os to vehicle sensors. It also supports external peripherals, such as driver ID touch button, swipe card, bar-code wand and PS/2 keyboard interface. The Net-960E model has been superseded by the M-Series.

Micronet generates revenues primarily through the sale of its hardware products to service providers who sell those to end users. Micronet does not typically enter into service or maintenance contracts with respect to its products. Micronet customarily provides its customers with a 12-month warranty, with an option to extend such warranty, subject to the payment of applicable fees. Micronet's technical support and DTK support services generate the balance of Micronet's revenues.

### Strategy

Micronet's strategy includes targeting potentially larger scale transactions that we expect could result in higher revenue as well as increased gross margin and overall profitability. Micronet's continuously analyzes the needs of the various vertical markets in which it operates in order to best serve its customers' needs. Micronet's strategy is driven by, and focused on, both continued internal growth of its business through the development of new potential markets, new technologies and innovative systems and products as well as through acquisitions.

Key elements of Micronet's strategy include:

- Continuing to focus on specific vertical markets, major accounts and OEM relationships to achieve broad penetration of its products.
- Continuing to invest efforts in its technology and product development, through collaborations with its partners.
  - Launching in the near future the economical CE300 product to broaden its current offerings.
  - Penetrating and developing the truck OEM market.
- Partnering with and/or acquiring complementary technology to broaden and deepen its offerings.

Micronet believes that one of its core competitive strengths is the breadth of its expertise in mobile data technologies, particularly in MRM technologies for the management of vehicle fleets and mobile workforces. Micronet intends to enhance its existing products and develop new products by continuing to make significant investments in research and development. Micronet further intends to continue its strategy of internally developing products in order to enter new market segments by collaborating closely with its strategic customers to outline and develop next generation platforms.

Micronet is increasingly pursuing international opportunities. For example, Micronet is seeking to expand and continue penetration into the European market, primarily through its relationship with its exclusive distributor in the United Kingdom.

### Sales and Marketing

Micronet's customers consist primarily of ASPs, and solution providers specializing in the fleet and MRM markets. Currently, Micronet does not sell to end-users. Its customers are generally leading service providers of commercial solutions that integrate a wide range of positioning technologies and computing fleet communications in the MRM market, such as PeopleNet, which is a subsidiary of Trimble, and XRS Corporation, that have large-scale organizations and significant resources and in turn sell Micronet's products to end-users.

Micronet has customers in 20 countries. Micronet's main target markets are currently the U.S. and European markets. The United States currently constitutes its largest market, representing approximately 84% of revenue for the year ended December 31, 2011 and 94% for the nine months ended September 30, 2012. In any given year, a single customer may account for a significant portion of Micronet's revenue. In the year ended December 31, 2011, Micronet's largest customer, PeopleNet, located in the United States, represented approximately 39% of its revenues. The next largest customer represented approximately 16% of its revenues. For the nine months ended September 30, 2012, PeopleNet represented approximately 73% of Micronet's revenues. No other customer accounted for more than 9% of Micronet's revenue.

In September 2011, Micronet signed an exclusive distribution agreement with a United Kingdom distributor for the marketing of its systems to the European market. The objective of this relationship is to expand and continue penetration into the European market. Micronet's products are sold under the exclusive distribution agreement by way of direct sales to customers referred by the distributor in exchange for a commission payable to the distributor.

As of September 30, 2012, in addition to its European distributor as described above, Micronet maintained a sales team composed of three individuals who work closely with the engineering, development and purchase teams of Micronet's customers on the specification, testing, field tests, adaptations and customizations of the products according to customers' needs

### Research and Development

Micronet believes that one of its core competitive strengths is the breadth of its expertise in mobile data technologies, particularly in MRM technologies for the management of vehicle fleets and mobile workforces. Micronet has developed this expertise over a period of 30 years. It has an experienced engineering and product development team. In order to keep up with the rapid technology evolution and the changing needs of the markets in which it operates, Micronet intends to enhance its existing products and to develop new products, by continuing to make significant investments in research and development.

Micronet upgrades and enhances its existing products on an on-going basis, including based on input from its clients and partners and from other sources. Enhancements include the addition of capabilities, improvement of product functionality and performance, and adding features to the existing hardware in order to offer customers a variety of solutions. Micronet is in the pre-release phase of the CE300 series, a new, improved model of the CE500 series that is intended to provide its customers with enhanced features and capabilities, optimized for their specific requirements, at a lower cost.

Micronet seeks to design and manage product life cycles through a controlled and structured process. It involves customers and industry experts from its target markets in the definition and refinement of its product development. Product development emphasis is placed on meeting industry standards, ease of integration, cost reduction, design-for

manufacturability, versatility and innovation, and quality and reliability.

During the fiscal years ended December 31, 2012 and 2011, Micronet spent NIS 4.5 million (approximately \$1.2 million) and NIS 5.2 million (approximately \$1.3 million), respectively, on research and development activities. Micronet uses its own resources to finance its research and development activities and none of the cost of such activities is borne by its customers.

## Competition

Micronet operates in a highly competitive industry. Further, during the last few years, competition in the field of mobile computers has significantly increased with the mass entrance and introduction to the market of smartphones, tablets, and laptops, as well as various GPS-based hand-held devices featuring additional functionalities.

Micronet's current business is focused on customers that are implementing "tailor made" solutions characterized by highly professional, mission critical and complex technological solutions. These solutions based on Micronet's products must sustain and maintain performance under extreme, challenging field conditions for extended periods of time.

Micronet believes it has approximately six direct competitors operating in Micronet's main markets. Most of these competitors are private companies or companies that do not disclose their sales or other financial information, making it difficult to estimate Micronet's market share and position in the market. Micronet believes that its most significant competitors include: Beijer Electronics, Inc., Morey Corporation (U.S.A.), Mobile Devices Corporation, MOTIA Co. Ltd, Advantech Co., Ltd. and Garmin USA, Inc.

This intensely competitive industry is characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and changes in customer requirements. In order to maintain its competitive strength, Micronet must continue to develop and introduce on a timely and cost-effective basis, new products and product features which are in line with the technological developments and emerging industry standards and address the increasingly sophisticated needs of its customers.

Micronet's management believes its strongest competitive advantages are the durability of its products and reputation in the industry. Its competitive strengths include the following:

- 30 years of field-proven experience, including engineering and manufacturing know-how;
- ability to deliver solutions and products to organizations and customers that are leaders in their respective industries;
- ability to integrate advanced technological capabilities to develop new solutions and products with its own manufacturing infrastructures and facilities, with full control over the end-to-end production process and cost-efficiencies;
  - short "food chain" professional and direct marketing methodology focused on main target customers;
    - reputation as a leading supplier in relevant markets;
    - lasting working relationships with customers;
    - an experienced, dedicated and competent management team; and
- proprietary technology and know-how that allows rapid configuration and implementation of new solutions to meet the special customer needs.



## Manufacturing

With the exception of certain components purchased from subcontractors, Micronet manufactures its products and solutions using its own facilities, capabilities and resources, which enables it to control and manage the manufacturing process and ensure timely delivery. The manufacturing process includes development of electronic cards, assembly of microchips on the electronic cards and the assembly thereof within the unit, final testing and quality tests. On a case by case basis, subcontractors specializing in certain development or manufacturing aspects may be retained to achieve improvement, efficiency or reduction of costs of development and/or manufacturing processes.

Following certain enhancements in its manufacturing and production capabilities in the last two years, Micronet has excess manufacturing capacity and has the ability to meet current or foreseeable manufacturing needs without making any significant investments. Implemented enhancements include:

- upgraded production and assembly line and purchased new machinery with significant higher component implementation scale;
- increased factory facilities and upgraded various infrastructures;
- entered into an agreement with a leading subcontractor in the field that operates two additional manufacturing facilities, has significant procurement and manufacturing capabilities and resources outside Israel that are available to Micronet;
- certified subcontractors to perform manufacturing process to ensure flexible manufacturing infrastructures and deployment that can be used for disaster recovery scenarios or rapid increase in production needs.

If additional manufacturing resources are needed to meet increased demand for Micronet's products, manufacturing capacity can be enhanced by outsourcing manufacturing processes, recruiting and training additional employees, adding shifts to the labor cycle and purchasing additional manufacturing equipment and machinery or other required infrastructures.

#### Intellectual Property

Proprietary rights are important to Micronet's business because its ability to remain competitive in the market is dependent to a significant degree on its proprietary solutions and products and the technology on which they are based. To protect its proprietary rights, Micronet primarily relies on a combination of copyright and trade secret laws, internal know-how, and agreements with third parties, such as license agreements. In addition, Micronet employs internal controls such as the use of confidentiality and non-disclosure agreements. Micronet believes its proprietary technology incorporates processes, know-how, methods, algorithms, hardware and software that are the result of more than 20 years of experience and in-house expertise and thus are not easily copied. Further, most of the production process is performed in house with the exception of certain specific components that are manufactured by a subcontractor. This limited outsourcing process allows Micronet to maintain the majority of its proprietary information and know-how within the company and lowers its exposure to the risk of its products or solution being copied or used by any third parties.

There is a significant amount of litigation with respect to intellectual property in the industry in which Micronet operates. Micronet has not, to date, been the subject of any claims or proceedings with regards to infringement of third party's proprietary rights and it believes that its products, solutions and services do not violate or infringe any third party's intellectual property rights.

Micronet's management, together with its research and development team, monitor closely and continuously all technological developments in the market. Micronet considers and evaluates on an ad hoc basis whether technology and proprietary assets should be acquired through independent in-house development or through the purchase of patent or other technological licenses. Where the purchase of third party proprietary technology, solution or products is required and can be of advantage to its business, Micronet would purchase a license and pay appropriate royalties or license fees. Micronet currently has all third-party licenses that it believes are necessary to maintain and develop its business.



## Government Regulation

Micronet's business is subject to certain international standards such as FCC Part 15B, FCC ID, CE, and RoHS which define compatibility of interface and telecommunications standards to those implemented in Europe by the European Commission and in the U.S. by the Federal Communications Commission. Its solutions and products also comply with the E-Mark European standard, which is the standard that defines the compatibility of interface and telecommunications to all appliances installed in and around an automobile.

## Employees

As of September 30, 2012, we had approximately 90 full-time employees at Micronet. Of these employees, 65% are employed in engineering and manufacturing positions, and the remainder are employed in sales, development, management and administrative positions. Our employees are not represented by any collective bargaining agreement, and we have never experienced a work stoppage. We believe we have good and sustainable relations with our employees.

Israeli labor laws and regulations apply to all employees based in Israel. The laws principally concern matters such as paid vacation, paid sick days, length of the workday, payment for overtime and severance payments upon the retirement or death of an employee or termination of employment under specified circumstances. The severance payments may be funded, in whole or in part, through a managers' insurance fund or a pension fund. The payments to the managers' insurance fund or pension fund toward severance amount to 8.3% of wages. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute of Israel. Since January 1, 1995, these amounts also include payments for health insurance. The payments to the National Insurance Institute amount to approximately 14.5% of wages, of which the employee contributes 66% and the employer contributes 34%.

## Properties

Micronet currently maintains two facilities in adjacent buildings in Azor, Israel. One of these facilities is leased, or the Lease, and the other facility is under a long-term lease, or the Long Term Lease, under which Micronet has purchased "like ownership" rights from the Israeli Land Administration. The facility subject to the Long Term Lease is used as Micronet's headquarters and the facility subject to the Lease is an industrial building which houses its factory. Micronet's executive offices occupy approximately 9,688 square feet and house the corporate functions, sales support, marketing, finance, engineering and operating groups. The Long Term Lease expires in April 2028, subject to our option to extend the term by another 49 years. We do not pay rent with respect to this facility because we have purchased the lease rights. The factory facility occupies approximately 11,840 square feet and is used for the manufacturing and logistic support of the business, including warehouse. The Lease expires in June 2013, subject to our option to extend the term for two additional years until June 2015, and has a current annual base rent, before reimbursable operating expenses, of approximately \$91,000 per year. Micronet believes that its present facilities are suitable for its existing and projected operations for the near future.

## Legal Proceedings

Micronet is not subject to any legal proceedings that have materially affected, or are reasonably likely to materially affect, its business or financial position.

## MANAGEMENT

## Executive Officers and Directors

The members of our board of directors and our executive officers, together with their respective ages and certain biographical information are set forth below. Mr. Lucatz receives no compensation for his services as a board member but is entitled to management services fees paid to a company under his control. Directors hold office until the next annual meeting of our stockholders and until their successors have been duly elected and qualified. Our executive officers are elected by, and serve at the designation and appointment of, the board of directors.

Name	Age	Position
David Lucatz	56	Chairman of the Board, Chief Executive Officer and President
Tali Dinar	41	Chief Financial Officer and Secretary
Chezy Ofir	61	Director*

\*Will become a director upon completion of this offering.

The following is a brief account of the business experience of each of our directors and executive officers during the past five years or more.

David Lucatz was elected to our board of directors and appointed as our President and Chief Executive Officer in May 2010 and as a director of Micronet in September 2012. Since May 2010, Mr. Lucatz has been serving as the President of Enertec. Since 2006, he has been the Chairman of the Board, President and Chief Executive Officer of DLC, a boutique investment holding company based in Israel specializing in investment banking, deal structuring, business development and public/private fund raising with a strong focus in the defense and homeland security markets. From 2001 until 2006, he was part of the controlling shareholder group and served as a Deputy President and chief financial officer of I.T.L. Optronics Ltd., a publicly-traded company listed on the TASE engaged in the development, production and marketing of advanced electronic systems and solutions for the defense and security industries. From 1998 to 2001, he was the Chief Executive Officer of Talipalast, a leading manufacturer of Plastic products. Previously, Mr. Lucatz has been an executive vice president of Securitas, a public finance investments group. The Board believes that Mr. Lucatz's experience over the last 25 years in management, operations, finance and business development in corporate turnaround, roll-up and M&A situations and experience in the electronics defense and homeland security sectors provides us with the comprehensive and valuable perspective and judgment necessary to guide our strategies and monitor their execution. Mr. Lucatz holds a B.Sc. in Economics and Management from the Hebrew University of Jerusalem and a M.Sc. in Industrial and Systems Engineering from The Ohio State University.

Tali Dinar has served as our Chief Financial Officer since May 2010, the Chief Financial Officer of Enertec since November 2009 and the Chief Financial Officer of Micronet since November 2012. Since October 2009, Mrs. Dinar has served as vice president, finance of DLC, where she serves as key advisor to the company's management and is responsible for implementing internal controls driving major strategic financial issues. From 2007 until 2009, she served as chief controller of the Global Consortium on Security Transformation, a global homeland security organization. From 2002 until 2007, she was the chief controller of I.T.L. Optronics Ltd. Mrs. Dinar holds a B.A. in Accounting and Business Management from The College of Management Academic Studies and earned her CPA certificate in 1999.

Professor Chezy Ofir will become a director upon completion of this offering. He was appointed as a director of Micronet in October 2012. Professor Ofir has over 20 years of experience in business consulting and corporate management. During this period, Professor Ofir has served as a chairman and member of the boards of directors of a large number of companies in various sectors. Professor Ofir has been a director and Chairman of the Financial

Reporting Committee of Makhteshim Agam, a leading manufacturer and distributor of crop protection products, has served as a director and member of all board committees of I.T.L. Optronics Ltd., a company which develops and markets advanced systems and solutions for the defense, warfare and security industries, and as a member of the board of directors, Chairman of the Audit Committee and member of all board committees of Shufersal, is the largest food and non-food retail chain in Israel. He served as a member of the Executive Export Trade and Marketing Committee of the Industry and Trade Ministry where he evaluated company programs and formulated and recommended funding to the committee. Professor Ofir has been a faculty member at the Hebrew University for more than 20 years. Professor Ofir founded an Executive MBA program for CEOs, which is the first and only program of its kind in Israel. Additionally, Professor Ofir was the Chairman of the Marketing Department at the Hebrew University Business School from 1988 through 2003. Professor Ofir has been invited as a lecturer or research partner to many top universities, including Stanford University, University of California Berkeley, New York University and Georgetown University. Professor Ofir's publications have been covered in media and leading international business magazines and papers, including The Financial Times, MIT Sloan Management Review and Stanford Business. Professor Ofir's extensive experience in consulting companies on strategic processes, international business development, business and marketing strategy, establishing control systems, products and new product strategies and pricing strategy will enable him to provide effective oversight as a member of our board of directors. Professor Ofir holds a B.Sc. and M.Sc. in Engineering and doctorate and master's degrees in Business Administration from Columbia University.

## Key Employees and Members of Management

The following is a brief description of the business experience of our key employees who are not executive officers:

Zvi Avni, age 51, has been CEO of Enertec since January 1, 2002. Mr. Avni has 28 years of experience with automatic test equipment, or ATE, systems for the military market and worked at Elbit Systems for 12 years as an ATE group leader. Mr. Avni received a Practical Electronics Engineering degree from Haifa Technion Institute of Technology in 1982.

Refael Katz, age 55, joined Micronet in 2002 to lead its sales team and has been CEO since 2005. Prior to joining Micronet, Mr. Katz was co-founder and CEO of CT Motion, a cellular location-based services company.

Shlomo Spokone Shalev, age 50, has been Chairman of the Board of Micronet since 2011. Prior to joining Micronet, he served as Active Chairman of the Board of NetromX, an enterprise software company. Prior to that, Mr. Shalev held various senior managerial positions in private and publicly traded companies. Mr. Shalev holds a B.A. in Economics from Ben Gurion University and an MBA from the University of San Francisco.

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There are no arrangements or understandings with major stockholders, customers, suppliers or others pursuant to which any of our directors or members of senior management were selected as such. In addition, there are no family relationships among our executive officers and directors.

Our future success depends, in significant part, on the continued service of certain key executive officers, managers, and sales and technical personnel, who possess extensive expertise in various aspects of our business. We may not be able to find an appropriate replacement for any of our key personnel. Any loss or interruption of our key personnel's services could adversely affect our ability to implement our business plan. It could also result in our failure to create and maintain relationships with strategic partners that are critical to our success. We do not presently maintain key-man life insurance policies on any of our officers.

## Corporate Governance

Our board of directors is currently comprised of one director. Mr. Lucatz, our President and Chief Executive Officer, is not independent as that term is defined under the Listing Rules of the NASDAQ. Professor Ofir, who will become a director upon completion of this offering, is independent as that term is defined under the Listing Rules of the NASDAQ. In accordance with the Listing Rules of the NASDAQ relating to director independence, prior to the closing of this offering we anticipate that additional directors will be appointed to serve on our board of directors, each of whom will qualify as “independent” under the Listing Rules of the NASDAQ (even though we are not currently listed on such exchange), federal securities laws and SEC rules with respect to members of boards of directors and members of all board committees on which he or she serves. We further intend to establish an Audit Committee and otherwise meet the corporate governance requirements of the NASDAQ.

## Code of Ethics

We have adopted a Code of Ethics and Business Conduct for Officers, Directors and Employees that applies to all of our officers, directors and employees, including our chief executive officer and chief financial officer. It is filed as an exhibit to the registration statement of which this prospectus forms a part.



## EXECUTIVE COMPENSATION

## Summary Compensation Table

The following information is furnished for the year ended December 31, 2012 for our named executive officers.

Name and Principal Position	Year	Salary(1)	All Other Compensation(2)	Total
David Lucatz Chief Executive Officer and President (1)(3)	2012	\$ 219,662	\$ 32,146	\$ 251,808
Tali Dinar CFO and Secretary(1)	2012	\$ 137,080	\$ 26,728	\$ 163,808

(1) Salary paid in NIS. The amounts are converted according to the average foreign exchange rate U.S. dollar/NIS.

(2) "All Other Compensation" are secretarial and office services provided by DLC team and vehicle expenses of the Chairman.

(3) This amount is paid through a consulting agreement effective as of August 2009 that we entered into with DLC (our controlling shareholder which is controlled by Mr. Lucatz). Under the consulting agreement, we paid DLC through August 2011 management fees of NIS 50,000 (approximately \$14,000) on a monthly basis, and covered other expenses in a sum of NIS 10,000 (approximately \$3,000) per month. As of January 1, 2012, the costs of the consulting fee and/or salary were adjusted and increased by NIS 10,000 so the monthly salary/consulting fee management fee is currently NIS 60,000 (approximately \$17,000).

## Employment agreements

None of our employees are subject to a collective bargaining agreement.

On November 7, 2012, Ms. Dinar entered into an employment agreement with Micronet. Ms. Dinar may be deemed to be an employee-at-will, since her agreement does not specify a term of employment. Ms. Dinar's annual base salary is currently 25,000 NIS (approximately \$6,400). We may terminate the agreement at any time by providing Ms. Dinar with seven months' prior written notice and Ms. Dinar may terminate the agreement at any time by providing us with three months' prior written notice. Upon termination, Ms. Dinar will be entitled to her base salary through the date of termination and to all amounts deposited in her favor in pension funds, including payments made for severance pay unless such rights are denied as a matter of applicable law. However, if Ms. Dinar is terminated due to her committing a crime bearing moral turpitude or causing us substantial harm resulting from a material breach of her duties to us, Ms. Dinar will not be entitled to receive any prior written notice payment and severance pay may be denied. The agreement also contains customary confidentiality, non-competition and non-solicitation provisions.

On August 12, 2009, Mr. Harry Mund, our former president and chief executive officer, entered into an employment agreement with Enertec, pursuant to which Mr. Mund is employed as a special advisor to the board of directors of Enertec, for two days per week, for a term of three years, for a salary of 25,000 NIS (approximately \$6,500) per month. Following an agreed extension, the Agreement was terminated on December 1, 2012.

## Director Compensation

During 2011 and the first nine months of 2012, our director did not receive any compensation for serving on our board.

Outstanding Equity Awards

We did not have any equity awards outstanding as of December 31, 2011 and the date of this prospectus.

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## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Our management believes the terms of each of the below transactions are at least as favorable as could be obtained from unrelated third parties.

On March 2, 2011, Mr. Mund, who, in addition to being our former President and Chief Executive Officer, was our majority stockholder, sold to DLC the remaining 1,443,670 shares of our common stock held by him in consideration for NIS 600,000 (approximately \$150,000). Immediately following such sale by Mr. Mund, DLC beneficially owned approximately 73.27% of the outstanding shares of our common stock.

On March 2, 2011, Mr. Mund sold to Enertec Management Ltd., an indirect, our wholly-owned subsidiary, or Enertec Management, the 27% of outstanding shares of Enertec not held by Enertec Management in consideration for approximately NIS 5.3 million (approximately \$1.3 million). Following the transaction, Enertec is now our indirect, wholly-owned subsidiary.

Mr. Lucatz was paid through a consulting agreement effective as of August 2009 that we entered into with DLC (our controlling shareholder which is controlled by Mr. Lucatz). Under the consulting agreement, we paid DLC through August 2011 management fees of NIS 50,000 (approximately \$14,000) on a monthly basis, and covered other expenses in a sum of NIS 10,000 (approximately \$3,000) per month. As of January 1, 2012, the costs of the consulting fee and/or salary were adjusted and increased by NIS 10,000 so the monthly salary/consulting management fee was NIS 60,000 (approximately \$17,000).

In November 2012, entities controlled by Mr. Lucatz reached agreements with each of Micronet and Lapis for the provision of management and consulting services to Micronet and Lapis, respectively. On November 7, 2012, the board of directors and the audit committee of the board of Micronet approved the entry into a management and consulting services agreement with DLC, which provides that effective November 1, 2012 Mr. Lucatz will devote 60% of his time to Micronet matters for the three year term of the agreement and that Micronet will pay the entities controlled by Mr. Lucatz management fees of NIS 65,000 (approximately \$16,667) on a monthly basis, and cover other monthly expenses. Such agreement was further subject to the approval of Micronet's shareholders, which was obtained at a special meeting held on January 30, 2013 for that purpose and went into effect following its execution on February 8, 2013. On November 26, 2012, DLC entered into a management and consulting services agreement with Lapis, effective November 1, 2012, which provides that we will pay the entities controlled by Mr. Lucatz: (i) management fees of \$13,333 on a monthly basis, and cover other monthly expenses, (ii) an annual bonus of 3% of the amount by which the annual EBITDA for such year exceeds the average annual EBITDA for 2011 and 2010, and (iii) a one-time bonus of 0.5% of the purchase price of any acquisition or capital raising transaction, excluding this offering, completed by us during the term of the agreement.

## PRINCIPAL STOCKHOLDERS

The following table sets forth certain information, as of February 1, 2013 with respect to the beneficial ownership of the outstanding common stock held by (i) each person known by us to be the beneficial owner of more than 5% of our common stock; (ii) each of our directors; (iii) each of our named executive officers; and (iv) our executive officers and directors as a group. Unless otherwise indicated, the persons named in the table below have sole voting and investment power with respect to the number of shares indicated as beneficially owned by them. Unless otherwise indicated, the address for each of the below persons is c/o Enertec Systems 2001 Ltd, 21 Hanapach St., Karmiel, Israel.

Name	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned	
		Prior to Offering	After the Offering
<b>5% Stockholders</b>			
D.L. Capital Ltd.(2)	5,194,400	80.1	
UTA Capital LLC(3)	1,552,227 (3)	19.3	
Zvi Avni	500,000	7.7	
<b>Directors and Named Executive Officers</b>			
David Lucatz(2)	5,194,400	80.1	
Tali Dinar	0	0.0	
Directors and Executive Officers as a group (2 persons)	5,194,400	80.1	

(1) Applicable percentage ownership is based on 6,483,000 shares of common stock outstanding as of February 1, 2013 together with securities exercisable or convertible into shares of common stock within 60 days of February 1, 2013 for each stockholder. The information set forth in the table above gives effect to the \_\_\_\_-for-\_\_\_\_ reverse split of shares of our common stock that we intend to effect prior to the effectiveness of this offering. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of February 1, 2013 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) Mr. Lucatz, by virtue of his being the controlling shareholder of DLC as well as the Chief Executive Officer and Chairman of the board of directors of DLC, may be deemed to beneficially own the 5,194,400 shares of our common stock held by DLC.

(3) According to information contained in a Schedule 13G filed jointly on January 5, 2012 with the SEC and a Form 4 filed jointly on September 14, 2012 with the SEC by (i) UTA; (ii) the members or beneficial owners of membership interests in UTA, which include (a) YZT Management LLC, a New Jersey limited liability company and the managing member of UTA, and (b) Alleghany Capital Corporation, a Delaware corporation and a member of UTA; (iii) Alleghany Corporation, a publicly-traded Delaware corporation of which Alleghany Capital Corporation is a wholly-owned subsidiary; and (iv) Udi Toledano, the managing member of YZT Management LLC. As of February 1, 2013, UTA held sole voting and dispositive power with respect to a warrant currently exercisable to purchase 952,227 shares of common stock at an exercise price of \$0.50 per share and a warrant exercisable within 60 days hereof to purchase 600,000 shares of common stock at an exercise price of \$0.65 per

share. YZT Management LLC, Alleghany Capital Corporation, Alleghany Corporation, and Udi Toledano have shared voting and dispositive power with respect to the shares underlying such warrants by virtue of their relationships with UTA. UTA's principal business address is 100 Executive Drive, Suite 330, West Orange, New Jersey 07052.

## DESCRIPTION OF CAPITAL STOCK

### General

As of the date of this prospectus, our authorized capital stock consisted of 100,000,000 shares of common stock, \$0.001 par value per share, and 5,000,000 shares of preferred stock, \$0.001 par value per share. Our board of directors may establish the rights and preferences of the preferred stock from time to time. As of the date of this prospectus, there were 6,483,000 shares of our common stock issued and outstanding and no shares of preferred stock that are issued and outstanding. As of the date of this prospectus, there were approximately 45 holders of record of our shares of common stock.

### Common Stock

Holders of our common stock are entitled to one vote per share. Our certificate of incorporation, as amended, does not provide for cumulative voting. Holders of our common stock are entitled to receive ratably such dividends, if any, as may be declared by our board of directors out of legally available funds. Upon liquidation, dissolution or winding-up, the holders of our common stock are entitled to share ratably in all of our assets which are legally available for distribution, after payment of or provision for all liabilities and the liquidation preference of any outstanding preferred stock. The holders of our common stock have no preemptive, subscription, redemption or conversion rights.

### Preferred Stock

Our certificate of incorporation provides that our board of directors is authorized to provide for the issuance of shares of preferred stock in one or more series and, by filing a certificate of designations pursuant to the applicable law of the State of Delaware, to establish from time to time for each such series the number of shares to be included in each such series and to fix the designations, powers, rights and preferences of the shares of each such series, and the qualifications, limitations and restrictions thereof. The authority of the board of directors with respect to each series of preferred stock includes, but is not limited to, determination of the following:

- the distinctive designation of such class or series and the number of shares to constitute such class or series;
- the rate at which dividends on the shares of such class or series shall be declared and paid or set aside for payment, whether dividends at the rate so determined shall be cumulative or accruing, and whether the shares of such class or series shall be entitled to any participating or other dividends in addition to dividends at the rate so determined, and if so, on what terms;
- the right or obligation, if any, of Lapis to redeem shares of the particular class or series of preferred stock and, if redeemable, the price, terms and manner of such redemption;
- the special and relative rights and preferences, if any, and the amount or amounts per share, which the shares of such class or series of preferred stock shall be entitled to receive upon any voluntary or involuntary liquidation, dissolution or winding up of Lapis;
- the terms and conditions, if any, upon which shares of such class or series shall be convertible into, or exchangeable for, shares of capital stock of any other class or series, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment, if any;
- the obligation, if any, of Lapis to retire, redeem or purchase shares of such class or series pursuant to a sinking fund or fund of a similar nature or otherwise, and the terms and conditions of such obligations;

- voting rights, if any, on the issuance of additional shares of such class or series or any shares of any other class or series of preferred stock;
- limitations, if any, on the issuance of additional shares of such class or series or any shares of any other class or series of preferred stock;

- such other preferences, powers, qualifications, special or relative rights and privileges as the board of directors may deem advisable and are not inconsistent with the law and the provisions of our certificate of incorporation.

#### Stock Options

As of the date of this prospectus, we had no stock options issued and outstanding.

#### Warrants

As of the date of this prospectus, we had 1,552,227 warrants outstanding, 952,227 of which are currently exercisable and 600,000 of which are exercisable within 60 days hereof, with a weighted average exercise price of approximately \$0.56 per share.

#### Anti-Takeover Provisions

#### Delaware Law

We are subject to Section 203 of the DGCL. This provision generally prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date the stockholder became an interested stockholder, unless:

- prior to such date, the board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by persons who are directors and also officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or subsequent to such date, the business combination is approved by the board of directors and authorized at an annual meeting or special meeting of stockholders and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines a business combination to include:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.





In general, Section 203 defines an “interested stockholder” as any entity or person beneficially owning 15% or more of the outstanding voting stock of a corporation, or an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of a corporation at any time within three years prior to the time of determination of interested stockholder status; and any entity or person affiliated with or controlling or controlled by such entity or person.

Section 214 of the DGCL provides that stockholders are denied the right to cumulate votes in the election of directors unless our certificate of incorporation provides otherwise. Our certificate of incorporation, as amended, does not provide for cumulative voting. These statutory provisions could delay or frustrate the removal of incumbent directors or a change in control of our company. They could also discourage, impede, or prevent a merger, tender offer, or proxy contest, even if such event would be favorable to the interests of stockholders.

#### Authorized but Unissued Shares

Our authorized but unissued shares of common stock will be available for future issuance without stockholder approval. We may use additional shares of common stock for a variety of purposes, including future offerings to raise additional capital or as compensation to third party service providers. The existence of authorized but unissued shares of common stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

#### Certificate of Incorporation and Bylaw Provisions

Our certificate of incorporation, as amended, and amended bylaws contain provisions that could have the effect of discouraging potential acquisition proposals or making a tender offer or delaying or preventing a change in control, including changes a stockholder might consider favorable. In particular, the certificate of incorporation and bylaws, as applicable, among other things:

- provide our board of directors with the ability to issue up to 5,000,000 shares of undesignated preferred stock and to determine the rights, preferences and privileges of such shares, without stockholder approval;
- provide our board of directors with the ability, in certain circumstances, to alter our bylaws without stockholder approval;
- provide our board of directors with the exclusive authority to fix the number of directors constituting the whole board; and
- provide that vacancies on our board of directors may be filled by a majority of directors in office, although less than a quorum.

Such provisions may have the effect of discouraging a third-party from acquiring us, even if doing so would be beneficial to our stockholders. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by them, and to discourage some types of transactions that may involve an actual or threatened change in control of our company. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage some tactics that may be used in proxy fights. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure our company outweigh the disadvantages of discouraging such proposals because, among other things, negotiation of such proposals could result in an improvement of their terms. However, these provisions could have the effect of discouraging others from making tender offers for our shares that could result from actual or rumored takeover attempts. These provisions also may have the effect of preventing changes in our management.

#### Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust Company.

#### Listing

The shares of our common stock are currently quoted on the OTCQB. We have applied for the listing of our common stock on The NASDAQ Capital Market under the symbol "LPST."

## SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there is no established public market for our common stock, and we cannot assure you that a significant public market for our common stock will develop or be sustained after this offering. As described below, \_\_\_\_\_ shares currently outstanding will be available for sale immediately after this offering. Sales of substantial amounts of our common stock in the public market after the restrictions lapse could cause the prevailing market price to decline and limit our ability to raise equity capital in the future.

Upon completion of this offering, we will have outstanding an aggregate of \_\_\_\_\_ shares of common stock, assuming no exercise of the underwriters' option to purchase additional shares and no exercise of options or warrants to purchase common stock that were outstanding as of the date of this prospectus. The shares of common stock being sold in this offering will be freely tradable without restriction or further registration under the Securities Act.

The remaining shares of common stock held by existing stockholders are "restricted securities," as that term is defined in Rule 144 under the Securities Act. These restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration, including exemptions under Section 4(a)(1), or Rule 144 promulgated under the Securities Act, which rule is summarized below.

Upon the expiration of the lock-up agreements described below and subject to the provisions of Rule 144, restricted shares totaling 5,694,400 will be available for sale in the public market 180 days after the date of this prospectus. Resale of such shares will be limited by volume and other resale restrictions under Rule 144 because the holders are our affiliates.

### Rule 144

The availability of Rule 144 will vary depending on whether restricted shares are held by an affiliate or a non-affiliate. Under Rule 144 as in effect on the date of this prospectus, once we have been a reporting company subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act for 90 days, an affiliate who has beneficially owned restricted shares of our common stock for at least six months would be entitled to sell within any three-month period a number of shares that does not exceed the greater of either of the following:

- 1% of the number of shares of common stock then outstanding, which will equal \_\_\_\_\_ shares immediately after this offering; and
- the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

However, the six month holding period increases to one year in the event we have not been a reporting company for at least 90 days. In addition, any sales by affiliates under Rule 144 are also limited by manner of sale provisions and notice requirements and the availability of current public information about us.

The volume limitation, manner of sale and notice provisions described above will not apply to sales by non-affiliates. For purposes of Rule 144, a non-affiliate is any person or entity who is not our affiliate at the time of sale and has not been our affiliate during the preceding three months. Once we have been a reporting company for 90 days, a non-affiliate who has beneficially owned restricted shares of our common stock for six months may rely on Rule 144 provided that certain public information regarding us is available. The six month holding period increases to one year in the event we have not been a reporting company for at least 90 days. However, a non-affiliate who has beneficially owned the restricted shares proposed to be sold for at least one year will not be subject to any restrictions under Rule 144 regardless of how long we have been a reporting company.

## Lock-up Agreements

We and each of our officers, directors, and greater than 5% stockholders have agreed, and any successor to us will agree, subject to certain exceptions, not to offer, issue, sell, contract to sell, encumber, grant any option for the sale of or otherwise dispose of any shares of our common stock or other securities convertible into or exercisable or exchangeable for shares of our common stock for a period of three months following the closing of this offering. See “Underwriting” section beginning on page 49 for additional information.

In addition, UTA, as the holder of certain warrants to purchase shares of our common stock has agreed not to sell any shares of Common Stock for a period of three months following the closing of this offering, provided however, that all of our executive officers, directors and any other owner of 5% or more of our shares of common stock immediately prior to the closing of this offering, have agreed to enter into such form of Lock-Up Agreement with respect to all shares of common stock beneficially owned by them.

#### Registration Rights

After the completion of this offering, UTA, as the holder of certain warrants to purchase shares of our common stock will have the right to require us to register these shares under the Securities Act under certain circumstances. UTA has agreed not to exercise its piggyback registration rights in connection with this offering and that it will not exercise its demand registration rights for a period of six months following the closing of this offering. Upon registration, these shares will become freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration, except for shares purchased by our affiliates.

The Representative's Warrants (as defined below) will provide for demand and piggyback registration rights upon request, in certain cases. The demand registration right provided will not be greater than five years from the effective date of the offering in compliance with FINRA Rule 5110(f)(2)(H)(iv). The piggyback registration right provided will not be greater than seven years from the effective date of the offering in compliance with FINRA Rule 5110(f)(2)(H)(v). We will bear all fees and expenses attendant to registering the securities issuable on exercise of the Representative's Warrants other than underwriting commissions incurred and payable by the holders. See "Underwriting" section beginning on page 49 for additional information.

## UNDERWRITING

Aegis Capital Corp. is acting as the representative of the underwriters of this offering, or the Representative. We have entered into an underwriting agreement dated \_\_\_\_\_, 2013 with the Representative. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to each underwriter named below and each underwriter named below has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of shares of common stock next to its name in the following table:

Underwriter	Number of Shares
Aegis Capital Corp.	

Total

The underwriters are committed to purchase all the shares offered by us if any shares are purchased, other than those covered by the option to purchase additional shares described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

The underwriters propose to offer the shares offered by us to the public at the public offering price set forth on the cover of this prospectus. In addition, the underwriters may offer some of the shares to other securities dealers at such price less a concession of \$\_\_\_per share. If all of the shares offered by us are not sold at the public offering price, the underwriters may change the offering price and other selling terms by means of a supplement to this prospectus.

The obligations of the underwriters may be terminated upon the occurrence of certain events specified in the underwriting agreement. Furthermore, pursuant to the underwriting agreement, the underwriters' obligations are subject to customary conditions, representations and warranties, such as receipt by the underwriters of officers' certificates and legal opinions.

We have agreed to indemnify the underwriters against specified liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect thereof.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel and other conditions specified in the underwriting agreement. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

We have granted the underwriters an over-allotment option. This option, which is exercisable for up to 45 days after the date of this prospectus, permits the underwriters to purchase a maximum \_\_\_\_\_additional shares from us to cover over-allotments. If the underwriters exercise all or part of this option, they will purchase shares covered by the option at the public offering price less the underwriting discounts and commissions that appear on the cover page of this prospectus. If this option is exercised in full, the total price to the public will be \$\_\_\_\_\_ and the total proceeds to us, before expenses, will be \$\_\_\_\_\_.

**Underwriting Discounts and Commissions.** We have agreed to pay underwriting discounts and commissions of 7% of the gross proceeds of the offering (equivalent to 7% of the per share public offering price of \$\_\_\_\_\_). The following table shows the public offering price, underwriting discounts and commissions and expenses to be paid by us to the underwriters and the proceeds of the public offering, before expenses, to us.





	Without over-allotment exercise	With full over-allotment exercise
Public offering price	\$	\$
Underwriting discounts and commissions paid by us (\$_____ per share)		
Non-accountable expense allowance (\$___ per share) (1)		
Proceeds before other expenses (2)	\$	\$

(1) The non-accountable expense allowance equals to 1% of the gross proceeds of the offering, excluding proceeds from the overallotment option if exercised.

(2) In addition to the underwriting discounts and commissions and non-accountable expense allowance, we agreed to pay or reimburse the underwriters to cover certain out of pocket expenses of the underwriters in connection with this offering, in an amount of up to \$76,775. We have paid an advance of \$25,000 to the Representative, and, after the initial filing of the registration statement of which this prospectus forms a part, paid the Representative an additional \$25,000 advance, each of which will be applied against the Representative's accountable expenses in compliance with FINRA Rule 5110(f)(2)(C). We estimate that the total expenses of the offering payable by us, including the underwriting discounts and commissions, the underwriters' expenses and non-accountable expense allowance and legal and other expenses will be approximately \$\_\_\_\_\_.

**Right of First Refusal.** We have also agreed to grant the Representative, for a period of 18 months from the effective date of this offering, the right of first refusal to act as lead underwriter for any of our, or that of any successor or subsidiary of us, public or private equity and public debt offerings during such 18 month period.

**Representative's Warrants.** We have also agreed to issue to the Representative or its designees, at the closing of this offering, warrants, or the Representative's Warrants to purchase \_\_\_\_\_ of our ordinary shares (equal to 5% of the aggregate number of shares sold in the offering (excluding the over-allotment option)). The shares issuable upon exercise of the Representative's Warrants are identical to those offered by this prospectus. The Representative's Warrants will be exercisable at any time and from time to time, in whole or in part, during the four-year period commencing one year from the effective date of this offering, at a price per share equal to \$ (125% of the public offering price per share). The Representative's Warrants have been deemed compensation by FINRA and are, therefore, subject to a 180-day lock-up pursuant to Rule 5110(g)(1) of FINRA. The Representative (or permitted assignees under the Rule) will not sell, transfer, assign, pledge or hypothecate these warrants or the securities underlying these warrants, nor will it engage in any hedging, short sale, derivative, put or call transaction that would result in the effective economic disposition of these warrants or the underlying securities for a period of 180 days after the effective date of this offering. The Representative's Warrants will provide for demand and piggyback registration rights upon request, in certain cases. The demand registration right provided will not be greater than five years from the effective date of the offering in compliance with FINRA Rule 5110(f)(2)(H)(iv). The piggyback registration right provided will not be greater than seven years from the effective date of the offering in compliance with FINRA Rule 5110(f)(2)(H)(v). We will bear all fees and expenses attendant to registering the securities issuable on exercise of the Representative's Warrants other than underwriting commissions incurred and payable by the holders. The Representative's Warrants will also provide for customary anti-dilution provisions (for stock dividends and splits and recapitalizations) consistent with FINRA Rule 5110, and further, the number of shares underlying the Representative's Warrants shall be reduced if necessary to comply with FINRA rules or regulations.

**Discretionary Accounts.** The underwriters do not intend to confirm sales of the shares offered hereby to any accounts over which they have discretionary authority.

Lock-Up Agreements. Pursuant to certain “lock-up” agreements, we, our executive officers and directors, and certain of our stockholders, have agreed, and any successor to us will agree, subject to certain exceptions and extensions, for a period of three months after the date of the pricing of the offering, not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of or announce the intention to otherwise dispose of, or enter into any swap, hedge or similar agreement or arrangement that transfers, in whole or in part, the economic risk of ownership of, directly or indirectly, our common stock, or engage in any short selling of any of our common stock or securities convertible into or exchangeable or exercisable for our common stock, without the prior written consent of the Representative.

This lock-up provision also applies to securities owned now or acquired later by the person executing the lock-up agreement or for which the person executing the agreement later acquires the power of disposition. The exceptions permit, among other things and subject to restrictions, (1) the issuance by us of stock options pursuant to our 2012 Stock Incentive Plan, (2) the issuance of common stock upon the exercise of any outstanding stock options and warrants and (3) transfers pursuant to a sale or an offer to purchase 100% of our outstanding common stock.

**Electronic Offer, Sale and Distribution of Shares.** A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The Representative may agree to allocate a number of shares to underwriters and any selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and any selling group members that will make internet distributions on the same basis as other allocations. Other than the prospectus in electronic format, the information on these websites is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved or endorsed by us or any underwriter in its capacity as underwriter, and should not be relied upon by investors.

**Other Relationships.** Certain of the underwriters and their affiliates have provided, and may in the future provide, various investment banking, commercial banking and other financial services for us and our affiliates for which they have received, and may in the future receive, customary fees; however, except as disclosed in this prospectus, no such services were provided in the 180-day period preceding this filing, and we have no present arrangements with any of the underwriters for any further services to be provided through the period ending 90 days following the effectiveness of this offering or thereafter.

**Stabilization.** In connection with this offering, the underwriters may engage in stabilizing transactions, overallotment transactions, syndicate covering transactions, penalty bids and purchases to cover positions created by short sales.

Stabilizing transactions permit bids to purchase shares so long as the stabilizing bids do not exceed a specified maximum, and are engaged in for the purpose of preventing or retarding a decline in the market price of the shares while the offering is in progress.

Overallotment transactions involve sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase. This creates a syndicate short position which may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the overallotment option. In a naked short position, the number of shares involved is greater than the number of shares in the overallotment option. The underwriters may close out any short position by exercising their overallotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of shares in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared with the price at which they may purchase shares through exercise of the overallotment option. If the underwriters sell more shares than could be covered by exercise of the overallotment option and, therefore, have a naked short position, the position can be closed out only by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that after pricing there could be downward pressure on the price of the shares in the open market that could adversely affect investors who purchase in the offering.

Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the shares originally sold by that syndicate member are purchased in stabilizing or syndicate covering transactions to cover syndicate short positions.



These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock in the open market may be higher than it would otherwise be in the absence of these transactions. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of our common stock. These transactions may be effected on the NASDAQ, in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

#### Public Offering of Common Stock

Prior to this offering, there was no established public market for our shares of common stock. The offering price will be determined by negotiations between us and the Representative. In determining the offering price, we and the Representative expect to consider a number of factors including:

- the information set forth in this prospectus and otherwise available to the Representative;
  - our prospects and the history and prospects for the industry in which we compete;
    - an assessment of our management;
    - our prospects for future earnings;
  - the general condition of the securities markets at the time of this offering;
- the recent market prices of, and demand for, publicly traded common stock of generally comparable companies; and
  - other factors deemed relevant by the underwriters and us.

Neither we nor the underwriters can assure investors that an active trading market will develop for our shares of common stock, or that the shares will trade in the public market at or above the offering price.

#### Offering Restrictions Outside the United States

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the shares offered by this prospectus, or as used in this section, the Shares, in any jurisdiction where action for that purpose is required. The Shares offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such Shares be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any Shares offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

#### European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive or a Relevant Member State, an offer to the public of any Shares which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representative

for any such offer; or

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(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Shares shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

#### United Kingdom

Each underwriter has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended, or FSMA) received by it in connection with the issue or sale of the Shares in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares in, from or otherwise involving the United Kingdom.

#### Israel

This document does not constitute a prospectus under the Israeli Securities Law, 5728-1968, and has not been filed with or approved by the Israel Securities Authority. In Israel, this prospectus is being distributed only to, and is directed only at, investors listed in the first addendum, or the Addendum, to the Israeli Securities Law, consisting primarily of joint investment in trust funds, provident funds, insurance companies, banks, portfolio managers, investment advisors, members of the TASE, underwriters purchasing for their own account, venture capital funds, and entities with shareholders’ equity in excess of NIS 50 million, each as defined in the Addendum (as it may be amended from time to time, collectively referred to as institutional investors). Institutional investors may be required to submit written confirmation that they fall within the scope of the Addendum. In addition, we may distribute and direct this document in Israel, at our sole discretion, to certain other exempt investors or to investors who do not qualify as institutional or exempt investors, provided that the number of such non-qualified investors in Israel shall be no greater than 35 in any 12-month period.

#### Canada

The Shares sold in this offering have not been and will not be qualified for distribution under applicable Canadian securities laws. Shares may be offered to residents of Canada pursuant to exemptions from the prospectus requirements of such laws.

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The address of Aegis Capital Corp. is 810 Seventh Avenue, 18th Floor, New York, New York 10019.





## LEGAL MATTERS

The validity of the shares of our common stock offered hereby will be passed upon for us by Olshan Frome Wolosky LLP, New York, New York. In connection with the offering of the shares, Zysman Aharoni Gayer and Sullivan & Worcester LLP, New York, New York, advised the underwriters with respect to certain U.S. securities law matters.

## EXPERTS

Paritz & Company, P.A., our independent registered public accounting firm until October 15, 2012, has audited our balance sheets as of December 31, 2011 and 2010, and the related consolidated statements of income and other comprehensive income, stockholders' equity and cash flows for the years ended December 31, 2011 and 2010 and the two-year period, as set forth in their report. We have included our financial statements in this prospectus and in the registration statement of which this prospectus forms a part in reliance on Paritz & Company, P.A.'s report given on their authority as experts in accounting and auditing.

On October 15, 2012, we dismissed Paritz & Company, P.A., or Paritz as our independent registered public accounting firm, effective immediately. The dismissal of Paritz was approved by our board of directors. Paritz's reports on our consolidated financial statements as at and for the fiscal years ended December 31, 2011 and 2010 did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal years ended December 31, 2011 and 2010 and through the date of dismissal, there were no disagreements with Paritz as described in Item 304(a)(1)(iv) of Regulation S-K on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which if not resolved to Paritz's satisfaction would have caused it to make reference thereto in connection with its reports on the financial statements for such years. During the fiscal years ended December 31, 2011 and 2010 and through the date of dismissal, there were no reportable events as described in Item 304(a)(1)(v) of Regulation S-K.

On October 15, 2012, we engaged BDO Ziv Haft as our new independent registered public accounting firm. The engagement of BDO Ziv Haft was approved by our Board of Directors. During the fiscal years ended December 31, 2011 and 2010 and through the date of the engagement of BDO Ziv Haft, we did not consult with BDO Ziv Haft with respect to any of (i) the application of accounting principles to a specified transaction, either completed or proposed; (ii) the type of audit opinion that might be rendered on our financial statements; or (iii) any matter that was either the subject of a disagreement (as described in Item 304(a)(1)(iv) of Regulation S-K) or a reportable event as described in Item 304(a)(1)(v) of Regulation S-K.

Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, independent registered public accounting firm, the former auditor of Micronet, has audited the consolidated balance sheets as of December 31, 2011 and 2010 and the related consolidated statements of comprehensive income, changes in shareholders' equity and of cash flows for each of the years ended on December 31, 2011 and 2010 of Micronet, as set forth in their report thereon. These financial statements are provided in this prospectus and in the registration statement of which this prospectus forms a part in reliance on Kost Forer Gabbay & Kasierer's report given on their authority as experts in accounting and auditing.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1, of which this prospectus forms a part, including exhibits and schedules, under the Securities Act with respect to the securities to be sold in this offering. This prospectus does not contain all the information contained in the registration statement. For further information with respect to us and the securities to be sold in this offering, we refer you to the registration statement and the exhibits and schedules attached to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete. When we make such statements, we

refer you to the copies of the contracts or documents that are filed as exhibits to the registration statement because those statements are qualified in all respects by reference to those exhibits.

Upon the closing of this offering, we will be subject to the informational requirements of the Exchange Act and we intend to file annual, quarterly and current reports, proxy statements and other information with the SEC. You can read our SEC filings, including the registration statement, at the SEC's website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file with the SEC at its public reference facility at 100 F Street, N.E., Washington, D.C. 20549, on official business days during the hours of 10:00 am to 3:00 pm.

You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facility.

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CONSOLIDATED FINANCIAL STATEMENTS FOR LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES

Report of Independent Registered Public Accounting Firm

To The Board of Directors  
and Stockholders of  
Lapis Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Lapis Technologies, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income and other comprehensive income, stockholders' equity and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Lapis Technologies, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Paritz & Company, P.A.

Hackensack, New Jersey  
March 23, 2012

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2010, AND DECEMBER 31, 2011  
(In Thousands, Except Share Amount and Par Value)

	December 31, 2011	December 31, 2010
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$940	\$626
Accounts receivable	7,947	4,532
Inventories	2,479	3,138
Prepaid expenses and other current assets	705	498
<b>Total current assets</b>	<b>12,071</b>	<b>8,794</b>
Assets of discontinued operations	-	207
Property and equipment, net	482	255
Long Term Deposit	22	21
Deferred income taxes	3	7
	<b>\$12,578</b>	<b>\$9,284</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Short term bank loans	\$-	\$256
Current portion of term loans	1,766	93
Accounts payable and accrued expenses	2,345	2,957
Due to stockholder		1,127
<b>Total current liabilities</b>	<b>4,111</b>	<b>4,433</b>
Liabilities of discontinued operations	-	156
Term loans, net of current portion and debt discount of \$718 as of December 31, 2011	3,787	561
Severance payable	228	89
Warrant liability	799	-
Excess of losses in unconsolidated subsidiary over investment	41	-
<b>Total liabilities</b>	<b>8,966</b>	<b>5,239</b>
Stockholders' Equity:		
Preferred stock; \$.001 par value, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock; \$.001 par value, 100,000,000 shares authorized, 6,483,000 shares issued and outstanding	6	6
Additional paid-in capital	-	78
Accumulated other comprehensive income	105	423
Retained Earnings	3,501	2,321

Stockholders' equity Lapis Technologies	3,612	2,828
Non-controlling interest in subsidiary	-	1,217
Total stockholders' equity	3,612	4,045
	\$12,578	\$9,284

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

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE  
INCOME FOR YEARS ENDED DECEMBER 31, 2010 AND 2011  
(In Thousands, Except Earnings Per Share and Share Amounts)

	Year Ended December 31,	
	2011	2010
Sales	\$10,146	\$11,106
Cost of sales	6,297	6,181
Gross profit	3,849	4,925
Operating expenses:		
Research and development expenses	240	250
Selling expenses	350	307
General and administrative	1,366	1,537
Total operating expenses	1,956	2,094
Income from operations	1,893	2,831
Other income (expense):		
Interest expense, net	(596 )	(300 )
Other income (expense)	-	(5 )
Gain on change in fair value of warrant liability	29	-
Equity in loss on unconsolidated subsidiary	(44 )	-
Income from continuing operations before provision for income taxes	1,282	2,526
Provision (benefit) for income taxes	(77 )	105
Net income from continuing operations	1,359	2,421
(Loss) from discontinued operations, net of tax	-	(150 )
Net Income	1,359	2,271
Less: net income attributable to non-controlling shareholders	-	652
Net income attributable to Lapis Technologies shareholders	1,359	1,619
Other comprehensive (loss) income, net of taxes		
Foreign translation (loss) gain	(318 )	222
Comprehensive income	\$1,041	\$1,841
Basic and Diluted net income (loss) per share		
Continuing Operations	0.21	0.27



Discontinued Operations	-	(0.02 )
	0.21	0.25
Basic weighted average common shares outstanding	6,483,000	6,483,000

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

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In Thousands)

	Year Ended December 31,	
	2011	2010
<b>Cash flows from operating activities:</b>		
Net income	\$1,359	\$1,619
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66	23
Non-controlling interest in subsidiary	-	652
Equity in loss of unconsolidated subsidiary	41	-
Gain on change in fair value of derivative	(29 )	-
Deferred income tax	4	7
Change in operating assets and liabilities:		
Accounts receivable	(3,415 )	(1,013 )
Inventories and income to receive	659	311
Prepaid expenses and other current assets	(207 )	(475 )
Accounts payable and accrued expenses	(612 )	1,059
Income tax payable	-	(4 )
Severance payable	139	(35 )
Net cash provided by (used in) operating activities - continuing operations	(1,995 )	2,144
Net cash provided by operating activities - discontinued operations	51	794
Net cash provided by (used in) operating activities	(1,944 )	2,938
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(293 )	(162 )
Long-term deposits	(1 )	21
Additional acquisition of non-controlling interest	(1,500 )	-
Net cash used in investing activities - continuing operations	(1,794 )	(141 )
<b>Cash flows from financing activities:</b>		
Repayment of short term bank loans	(256 )	(2,294 )
Decrease in due to affiliates		
Payment of loans from related parties	(1,127 )	94
Repayment of long-term debt	(414 )	
Proceeds from long-term debt	6,141	251
Net cash provided by (used in) financing activities - continuing operations	4,344	(1,949 )
Net cash provided by (used in) financing activities - discontinued operations	-	(625 )
Net cash provided by (used in) financing activities	4,344	(2,574 )
Effects of exchange rates on cash	(292 )	162
Increase (decrease) in cash and cash equivalents	314	385
Cash and cash equivalents, beginning of the period	626	241

Cash and cash equivalents, end of the period	\$940	\$626
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Supplemental disclosure of cash flow information:

Amount paid during the period for:

Interest	\$233	\$292
Taxes	\$51	\$83

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

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE  
INCOME  
(LOSS) YEARS ENDED DECEMBER 31, 2011 AND 2010  
(In Thousands, Except Share Amounts)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non- controlling Interest	Total Stockholders' Equity
	6,483,000	6	78	\$702	\$ 201	\$508	\$ 1,495
Foreign currency translation adjustment					222	57	279
Net income				1,619		652	2,271
Balance, December 31, 2010	6,483,000	6	78	\$2,321	\$ 423	\$1,217	\$ 4,045
Acquisition of non-controlling interest			(78 )	(179 )		(1,217 )	(1,474 )
Foreign currency translation adjustment					(318 )		(318 )
Net income				1,359			1,359
Balance, December 31, 2011	\$6,483,000	\$6	\$-	\$3,501	\$ 105	\$-	\$ 3,612

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

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2011

(In Thousands, Except Share and Per Share Amounts)

NOTE 1 – DESCRIPTION OF BUSINESS

Lapis Technologies, Inc. (the “Company”) was incorporated in the State of Delaware on January 31, 2002. The Company’s operations are conducted through its wholly-owned Israeli Subsidiary, Enertec Electronics Ltd. (“Enertec Electronics”) and its wholly-owned Israeli subsidiaries, Enertec Management Ltd. and Enertec Systems 2001 Ltd. (“Enertec Systems”).

Enertec Systems is a manufacturer and provider of various military and airborne systems, simulators and automatic test equipment (“ATE”). The business is focused in two major product lines: (i) the development and manufacturing of simulators and ATE to a large variety of weapons systems and at all levels of maintenance, development and integration and (ii) the development and manufacturing of comprehensive, large scale, electronics systems for the military industry providing comprehensive solutions to power supply, command and control including systems design, development, manufacturing and implementation on a turn-key basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation.

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”).

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All significant inter-company transactions and balances among the Company and its subsidiaries are eliminated upon consolidation.

The functional currency of the Company’s Israeli subsidiaries is the New Israeli Shekel (“NIS”); however, the accompanying financial statements have been translated and presented in United States Dollars (“USD”).

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Use of Estimates.

The preparation of the financial statements in conformity with generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Certain of our estimates, including evaluating the collectability of accounts receivable, could be affected by external conditions, including those unique to our industry, and general economic conditions. It is possible that these external factors could have an effect on our estimates that could cause actual results to differ from our estimates. We re-evaluate all of our

accounting estimates at least quarterly based on these conditions and record adjustments when necessary.

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### Currency translation

Since the Company's subsidiaries operate in Israel, their functional currency is the NIS. Revenue and expense accounts are translated at the average rates during the period, and assets and liabilities are translated at year-end rates and equity accounts are translated at historical rate. Translation adjustments arising from the use of different exchange rates from period to period are included as a separate component of stockholders' equity. Gains and losses from foreign currency transactions are recognized in current operations.

### Revenue Recognition

The Company enters into long-term fixed-price contracts with customers to manufacture test systems, simulators, and airborne applications. Revenue on these long-term fixed-price contracts is recognized under the percentage-of-completion method. In using the percentage of completion method, revenues are generally recorded based on the percentage of costs incurred to date on a contract relative to the estimated total expected contract cost. Significant judgment is required when estimating total contract effort and progress to completion on the arrangements as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Project costs are measured by the costs incurred to date as a percentage of the estimated total costs of each contract (cost-to-cost method). Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation. Selling, general and administrative costs are charged to expense as incurred. Estimated total costs of each contract are reviewed on a monthly basis by project management and operations personnel for substantially all projects. The Company begins recognizing revenue on a project when persuasive evidence of an arrangement exists, recoverability is probable, and project costs are incurred. Costs may be incurred before the Company has persuasive evidence of an arrangement. In those cases, if recoverability from that arrangement is probable, the project costs are deferred and revenue recognition is delayed.

Provisions for losses on uncompleted contracts are made in the period such losses are known. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, foreign currency exchange rate movements, and final contract settlements may result in revisions to revenue, costs and income and are recognized in the period in which the revisions are determined.

#### Accounts Receivable and Allowance for Doubtful Accounts Receivable

We have a policy of reserving for uncollectible accounts based on our best estimate of the amount of probable credit losses in our existing accounts receivable. We extend credit to our customers based on an evaluation of their financial condition and other factors. We generally do not require collateral or other security to support accounts receivable. We perform ongoing credit evaluations of our customers and maintain an allowance for potential bad debts if required.

We determine whether an allowance for doubtful accounts is required by evaluating specific accounts where information indicates the customers may have an inability to meet financial obligations. In these cases, we use assumptions and judgment, based on the best available facts and circumstances, to record a specific allowance for those customers against amounts due to reduce the receivable to the amount expected to be collected. These specific allowances are re-evaluated and adjusted as additional information is received. The amounts calculated are analyzed to determine the total amount of the allowance. We may also record a general allowance as necessary.

Direct write-offs are taken in the period when we have exhausted our efforts to collect overdue and unpaid receivables or otherwise evaluate other circumstances that indicate that we should abandon such efforts.

At December 31, 2011 and 2010 the Company has recorded an allowance for doubtful accounts in the amount of \$294 and \$274, respectively.

#### Inventories

Inventories of raw materials are stated at the lower of cost (first-in, first-out basis) or market. Cost of work in process comprise direct materials, direct production costs and an allocation of production overheads based on normal operating capacity.

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Routine maintenance and repairs and minor replacement costs are charged to expense as incurred, while expenditures that extend the life of these assets are capitalized. Depreciation and amortization are provided for in amounts sufficient to write off the cost of depreciable assets to operations over their estimated service lives. The Company uses the same depreciation method for both financial reporting and tax purposes. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation and amortization will be removed from the accounts and the resulting profit or loss will be reflected in the statement of income. The estimated lives used to determine depreciation and amortization are:

Leasehold improvements	10 years
Machinery and equipment	10 years
Furniture and fixtures	14 years
Transportation equipment	7 years
Computer equipment	3 years





## Fair Value Measurements

We adopted the provisions of ASC Topic 820, “Fair Value Measurements and Disclosures”, which defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value and expands disclosure of fair value measurements.

The estimated fair value of certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments. The carrying amounts of our short and long term credit obligations approximate fair value because the effective yields on these obligations, which include contractual interest rates are comparable to rates of returns for instruments of similar credit risk.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

- Level 1 — quoted prices in active markets for identical assets or liabilities
- Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable
- Level 3 — inputs that are unobservable (for example cash flow modeling inputs based on assumptions)

## Stock Based Compensation

The Company accounts for stock based compensation under the fair value method under which compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. For stock options, fair value is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, the expected dividends on it, and the risk-free interest rate over the expected life of the option. For the years ended December 31, 2011 and 2010 the Company did not issue any stock options.

## Common Stock Purchase Warrants and Other Derivative Financial Instruments

We classify as equity any contracts that require physical settlement or net-share settlement or provide us a choice of net-cash settlement or settlement in our own shares (physical settlement or net-share settlement) provided that such contracts are indexed to our own stock as defined in ASC 815-40 (“Contracts in Entity’s Own Equity”). We classify as assets or liabilities any contracts that require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside our control) or give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). We assess classification of our common stock purchase warrants and other free standing derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

Our derivative financial instruments consist of the Stock Purchase Warrants we issued to UTA Capital LLC, a Delaware limited liability company (“UTA”), in connection with the financing (See Note 10). We evaluated these derivatives to assess their proper classification using the applicable classification criteria enumerated under ASC 815-40. We determined that the warrant should be classified as liabilities in the accompanying balance sheets because the settlement provisions are not fixed due to anti-dilution price protection and other price adjustments based upon specific triggering events.

#### Warranty Reserves

The Company usually warrants its product for a one-year period. A provision for estimated warranty costs, if material, is recorded at the time of sale. Based upon historical experience the Company has not incurred material costs relating to its warranty and has therefore not recorded a warranty provision at December 31, 2011 and 2010.

#### Shipping and Handling Costs

Shipping and handling costs are included in cost of sales in accordance with guidance established by the Emerging Issues Task Force (“EITF”) issue No. 00-10, “Accounting for Shipping and Handling Costs.”

#### Research and Development Costs

Research and development costs are charged to general and administrative expense as incurred. Research and development cost for the years ended December 31, 2011 and 2010 were approximately \$240 and \$250 respectively.

#### Advertising Costs

Advertising costs are expensed as incurred and included in selling expenses. Advertising costs for the years ended December 31, 2011 and 2010 were \$56 and \$54, respectively.

#### Severance Payable

Severance payable represents amounts computed on employees’ most recent salary and the number of years working in Israel. The Company’s liability is partially offset by amounts deposited to insurance policies, which are under the Company’s control.

#### Earnings per Share

Basic net earnings per share is computed by dividing the net earnings for the year by the weighted average number of common shares outstanding during the year. Diluted net earnings per share is computed by dividing the net earnings for the year by the weighted average number of common shares and common share equivalents outstanding during the year.

### Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered. In such circumstances, the Company will estimate the future cash flows expected to result from the use of the asset and its eventual disposition. Future cash flows are the future cash inflows expected to be generated by an asset less the future outflows expected to be necessary to obtain those inflows. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, the Company will recognize an impairment loss to adjust to the fair value of the asset. Management believes that there is no impairment of long-lived assets at December 31, 2011 and 2010.

### Non Controlling Interest

The non controlling interest represents the minority stockholder's proportionate share of the equity and net income of the Company's subsidiary at December 31, 2010.

### Income Taxes

We use the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. 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 the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

ASC Topic 740-10-30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740-10-40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

### Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board or other standard setting bodies that may have an impact on the Company's accounting and reporting. The Company believes that such recently issued accounting pronouncements and other authoritative guidance for which the effective date is in the future either will not have an impact on its accounting or reporting or that such impact will not be material to its financial position, results of operations, and cash flows when implemented.

## NOTE 3 – ACQUISITION OF NON-CONTROLLING INTEREST

On March 2, 2011, Enertec Management Ltd., an indirect, wholly-owned subsidiary of the Company, acquired the 27% of the outstanding shares Enertec Systems not previously held by the Company, for an aggregate purchase price of \$1,500. The Company accounted for the acquisition of the additional interest as an equity transaction in accordance with the accounting standard on noncontrolling interest. Following the transaction, Enertec Systems is now an indirect, wholly-owned subsidiary of the Company.

## NOTE 4 - INVENTORIES

Inventories consist of the following at December 31, 2011 and 2010:

	2011	2010
Raw materials	\$ 732	\$ 648
Work in process	1,747	2,490
	\$ 2,479	\$ 3,138

## NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2011 and 2010:

	2011	2010
Leasehold improvements	\$ 352	\$ 118
Machinery and equipment	133	142
Furniture and fixtures	149	141
Transportation equipment	113	121
Computer equipment	379	355
	1,126	877
Less accumulated depreciation and amortization	644	622
	\$ 482	\$ 255

## NOTE 6 - DISCONTINUED OPERATIONS

On October 17, 2010, Enertec Electronics Ltd., a wholly-owned subsidiary of the Company entered into an asset purchase agreement to sell substantially all its electronics assets and business for an aggregate consideration of NIS 1,020 (approximately \$278). Enertec Electronics is engaged in the trading of electronics equipment (such as power supplies and other related power products). As a result of the agreement and in accordance with ASC Topic No. 205-20, "Presentation of Financial Statements – Discontinued Operations," the operations of Enertec Electronics are classified as discontinued operations in the Company's consolidated statement of operations and all assets and liabilities are presented separately on the consolidated balance sheets. All prior period information has been reclassified to be consistent with the current period presentation.

The following amounts related to Enertec Electronics operations were derived from historical financial information and have been segregated from continuing operations and reported as discontinued operations (in thousands)

	2010
Sales	\$ 370
Cost of Sales	209
Gross Profit	161
Selling expenses	34
General and administrative	237
Income from Operations	(110 )
Interest expense	19
Income from discontinued operations before tax	(129 )
Income taxes	21
Income from discontinued operations, net of tax	\$ (150 )

The following is a summary of the assets and liabilities of Enertec Electronics as presented in discontinued operations on the Consolidated Balance Sheet. The amounts presented below were derived from historical financial information and adjusted to exclude intercompany receivables and payables between Enertec Electronics and the company.

	2010
<b>Assets:</b>	
Cash and cash equivalents	\$ 196
Accounts receivable	11
Inventories	
Prepaid expenses and other current assets	
Total Assets	207
<b>Liabilities:</b>	
Short term bank loans	
Accounts payable and accrued expenses	156
Total Liabilities	\$ 156

#### NOTE 7 – SHORT TERM BANK LOANS

As of December 31, 2010, short-term bank loans, payable within twelve months at rates ranging from 5.5% per annum 7.5% per annum. There were no short term bank loans at December 31, 2011.

#### NOTE 8 – UTA Capital LLC TRANSACTION

On July 12, 2011, the Company entered into a Note and Warrant Purchase Agreement (as amended, the “Purchase Agreement”) with UTA, pursuant to which UTA agreed to provide financing to the Company on a secured basis. On August 16, 2011, the Company entered into a letter agreement (the “Letter Agreement”) with UTA pursuant to which the Company and UTA agreed to amend the Purchase Agreement to extend the date on which the Purchase Agreement could be terminated by either party if an initial closing under the Purchase Agreement had not yet occurred was extended from August 15, 2011 to August 31, 2011. On September 1, 2011, the Company entered into a Second Amendment to the Purchase Agreement.

The initial closing (the “Initial Closing”) of the transactions contemplated by the Purchase Agreement took place on September 1, 2011. In connection therewith, the Company issued to UTA a secured promissory note in the principal amount of \$3,000 that matures on March 1, 2014 (the “First Note”). The First Note bears interest at a rate of 8% per annum and principal is due to be repaid in three equal principal payments of \$1,000 on each of September 1, 2012, September 1, 2013 and March 1, 2014. Net proceeds from the sale of the First Note are to be used as working capital for the Company and its subsidiaries. In addition, the Company issued to UTA a warrant (the “First Warrant” or “First Warrants”) to purchase up to 952,227 shares of the Company’s common stock, par value \$0.001 (the “Common Stock”), representing 12% of the Company’s outstanding shares of Common Stock, on a fully diluted basis. The First Warrant first became exercisable on March 1, 2012 and will terminate, to the extent not exercised, on March 1, 2017. The Company has agreed to customary covenants.

On September 1, 2011, the Company entered into a Pledge and Security Agreement under which it pledged, as security in favor of UTA for the obligations of the Company under the First Note, the Intermediate Note (as defined below), if and when issued, the Second Note (as defined below), if and when issued, and the Purchase Agreement, all of the shares of capital stock of Enertec Electronics, and granted, as additional security in favor of UTA for the obligations of the Company under the transaction documents, a security interest in and lien on any and all accounts receivable, contracts, chattel paper, equipment and all other assets of the Company.

On September 1, 2011, each of the Company’s subsidiaries entered into a security agreement guaranteeing all of the Company’s obligations under the transaction documents and agreed to certain other restrictions.

Pursuant to the Purchase Agreement, UTA has also agreed to purchase a 27-month, secured promissory note in the principal amount of \$3,000 (the “Second Note”) at the second closing (the “Second Closing”), which closing is to occur not later than nine months after the Initial Closing, subject to the closing conditions set forth Purchase Agreement; provided, however, that the principal amount of the Second Note is to be reduced by the aggregate unpaid principal amount outstanding under the Intermediate Note (as defined below) as of the date of the Second Closing. The First Note and the Second Note will be secured by the pledge of certain of the assets of the Company and its subsidiaries and will be identical other than their duration.

The Company has also agreed to issue to UTA at the Second Closing a second warrant (the “Second Warrant” and, together with the First Warrant, the “Warrants”) to purchase that number of shares of Common Stock in order that the Warrants, and any shares of Common Stock issued upon exercise of the First Warrant, represent 12% of the outstanding shares of Common Stock on a fully diluted basis as of the Second Closing. The Company has agreed to grant to UTA certain demand and “piggy back” registration rights in respect of the shares underlying the Warrants, as set forth in the Purchase Agreement.

In addition, pursuant to the Purchase Agreement, the Company may issue to UTA (i) a 12-month, secured promissory note for the principal amount of \$1,500 (the “Intermediate Note”) that may be issued to UTA by the Company upon 60 days’ prior notice by UTA or the Company, which notice either UTA or the Company may give to the other party commencing on December 30, 2011 (but no later than the first to occur of June 1, 2012 or the consummation of the Second Closing), (ii) a warrant entitling UTA to purchase from the Company up to a total of 2% of the Company’s outstanding common stock, on a fully-diluted basis, subject to adjustment as described below (the “2% Intermediate Warrant”), that the Company will issue to UTA if a closing with respect to the Intermediate Note takes place (the “Intermediate Closing”), and (iii) a warrant entitling UTA to purchase from the Company up to a total of 2% of the Company’s outstanding common stock, on a fully-diluted basis, that the Company will issue to UTA in certain circumstances in the event that the Intermediate Closing does not occur (the “2% Default Intermediate Warrant” and together with the 2% Intermediate Warrant, the “Intermediate Warrant”).

The Intermediate Note, if issued, will bear interest at a rate of 8% per annum and principal will be due to be repaid on the maturity date. The proceeds from the issuance of the Intermediate Note are to be used solely to refinance the existing bank facility provided by First International Bank of Israel and to pay fees and expenses related thereto.

In the event that, as of the six-month anniversary of the date of the Intermediate Closing, the Company has not satisfied and discharged all of its obligations under the Intermediate Note, the percentage of shares underlying the 2% Intermediate Warrant (the “Fixed Percentage”) will be automatically increased from 2% to 4%. The Fixed Percentage will be increased by an additional 2% on each three-month anniversary thereafter until the expiration date of the 2% Intermediate Warrant if the Company has not satisfied and discharged all of its obligations under the Intermediate Note as of such dates. The Fixed Percentage will cease to increase following the closing of an acquisition by the Company, directly or indirectly, of the majority of the equity interests in or substantially all of the assets of (x) an acquisition candidate being considered by the Company, or, (y) subject to UTA’s prior written consent, another entity.

We recorded the fair value of the Warrants as a derivative liability with a corresponding increase in debt discount. Debt discount is being amortized over the term of the loan to the stated maturity date and are presented as a component of interest expense in the accompanying statements of operations. Amortization of the debt discount for the year ended December 31, 2011 is \$110, and is included as a component of interest expense in the accompanying statement of operations for the year ended December 31, 2011.

The carrying amount of the First Warrants, which are recorded as derivative liabilities, was adjusted to fair value at December 31, 2011. We calculated the fair value of the First Warrants using the Black-Scholes option-pricing model with the following assumptions at their date of issuance and reporting dates of

	September 1, 2011	December 31, 2011		
Fair Value of stock	\$1.11	\$1.11		
Exercise Price	\$.50	\$.50		
Term (Years)	5.5	5.17		
Dividend Rate (%)	0	0		
Volatility (%)	80	% 75	%	
Risk Free Rate (%)	.91	% .87	%	
Number of warrants	952,227	952,227		
Aggregate fair value	\$828	\$799		





The changes in fair value between the date of issuance September 1, 2011 and December 31, 2011 amounted to \$29, and is included in the accompanying statements of operations as a gain on change in fair value of warrant liability.

#### NOTE 9 – LONG TERM LOANS

Long-term debt consists of the following at December 31, 2011 and 2010:

	2011	2010
UTA Loan, net of debt discount of \$718 (See Note 8)	\$2,282	\$0
Long - term loans, due between January 2011 and June 2015 at rates ranging from 4.15% per annum 8% per annum	3,271	654
	5,553	654
Less current portion of term loans	1,766	93
	\$3,787	\$561

Against the Company's its long term debt and credit line, the Company assets (mainly its inventory via Enertec Systems) are subject to a floating charge for the benefit of several financial funding institutions as well as certain of its accounts receivable are subject to specific pledges. In addition, the controlling shareholder has provided personal guarantees in order to secure the Company's debt pursuant to the terms agreed between the funding institutions and the controlling shareholder. Also, pursuant to the agreement entered into between the Company and UTA on September 1, 2011 (and its amendments), the Company has created a pledge on all of the shares of capital stock of Enertec Electronics (fully owned by the Company) and granted, as additional security in favor of UTA, a security interest in and lien on any and all accounts receivable, contracts, chattel paper, equipment and all other assets of the Company. Each of the Company's subsidiaries entered into a security agreement guaranteeing all of the Company's obligations toward UTA under the above agreement including a floating charge (second degree) on Enertec systems assets and agreed to certain other restrictions.

#### NOTE 10 – PROVISION FOR INCOME TAXES

The Company's Israeli subsidiaries are governed by the tax laws of the state of Israel which has a general tax rate of 25%. The Company is entitled to various tax benefits in Israel by virtue of being granted the status of an "approved enterprise industrial company" as defined by the tax regulations. The benefits include, among other things, a reduced tax rate.

Income tax expense (benefit) attributable to continuing operations for the years ended December 31, 2011 and 2010 consists of the following

	2011	2010
<b>Current Provision</b>		
United States	-	-
Israel	\$ (127 )	\$ 197
Total current provision	(127 )	197
<b>Deferred Provision (benefit)</b>		
United States	-	-
Israel	47	(92 )
Total deferred provision	47	(92 )
<b>Total Provision for income taxes</b>	<b>\$ (77 )</b>	<b>\$ 105</b>

The reconciliation of income tax at the U.S. statutory rate to the Company's effective tax rate is as follows:

	2011	2010
U.S federal statutory rate	35 %	35 %
Tax Rate difference between US and Israel	(10 )%	(10 )%
Effect of Israeli tax rate benefit	(21 )%	(21 )%
Change in valuation allowance	(4 )%	-
Effect of previous years	(6 )%	
Effective Tax Rate	(6 )%	4 %

The tax effects of temporary differences that give rise to the Company's net deferred tax asset as of December 31, 2011 and 2010 are as follows:

	2011	2010
<b>Deferred Tax Assets:</b>		
Employee Bonus and Vacation	\$3	\$10
Allowance for bad debts	4	23
Non-deductible expenses	4	22
Net Operating Loss carry forward	210	148
Severance pay accrual	2	7
Gross deferred tax assets	223	210
Valuation Allowance	(210 )	(148 )
<b>Net Deferred Tax Assets</b>	<b>\$13</b>	<b>\$62</b>

At December 31, 2011 deferred tax assets are classified in the consolidated Balance Sheet as follows:

Current Assets (classified in Prepaid expenses and other current assets)	\$10
Long-Term Assets	\$3

At December 31, 2011 the Company has a net operating loss carry forward of approximately \$455 which may be utilized to offset future taxable income for United States Federal tax purposes. This net operating loss carry forward begins to expire in 2022. Since it is more likely than not that the Company will not realize a benefit from these net operating loss carry forwards a 100% valuation allowance has been recorded to reduce the deferred tax asset to its net realizable value.



We are currently open to audit for all years ended December 31, 2008 to present for US tax returns and for all years ended December 31, 2008 to present for the Israeli subsidiaries ; however, we do not currently have any ongoing tax examinations.

#### NOTE 11 – RELATED PARTIES

##### Due to Stockholder

As of December 31, 2010 the majority stockholder had advanced the Company a total of \$1,127. The stockholder loan bears interest at the Prime rate plus 0.1%. This loan was repaid in April 2011.

##### Transactions with related parties

	2011	2010
Consulting fee paid to controlling shareholder (1)	\$293	\$196
Interest expense to stockholder	\$0	\$33

This amount is paid through a consulting agreement effective as of August 2009 entered into between the Company and DLC (the Company’s controlling shareholder which is controlled by Mr. Lucatz). Under the consulting agreement, the Company paid DLC through August 2011 management fees of NIS 50,000 (approximately \$14,000) on a monthly basis, and covered other expenses in a sum of NIS 10,000 (approximately \$3,000) per month. As of September 2011, the costs of the consulting fee and/or salary were adjusted and increased by NIS 10,000 so the monthly salary/consulting fee management fee is currently NIS 60,000 (approximately \$17,000).

#### NOTE 12 – STOCK OPTION PLAN

On October 16, 2002, the Board of Directors and the stockholders of the Company authorized the formation of the 2002 Stock Option Plan (the “Plan”) which provides for the granting of incentive stock options, non-statutory stock options and stock appreciation rights. The incentive stock options can be granted to employees, including officers, of any subsidiary of the Company. The non-statutory stock options can be granted to all employees, including officers, non-employee directors, consultants of any subsidiary of the Company. Non-statutory stock options can only be granted to consultants that have rendered a bona fide service to the Company, so long as the service is not in connection with the offer or sale of securities in a capital raising transaction. The number of shares of common stock reserved for issuance under the Plan is 500,000, subject to adjustment in the event of a stock split, stock dividend, recapitalization or similar change in the Company’s capital structure.

Incentive stock options must be granted prior to ten years from the date the Plan was initially adopted by the Board of Directors. The option price for shares issued as incentive stock options shall not be less than the fair market value of the Company’s common stock at the date of grant unless the option is granted to an individual who, at the date of the grant, owns more than 10% of the total combined voting power of all classes of the Company’s stock (the “Principal Stockholder”). Then the option price shall be at least 110% of the fair market value at the date the option is granted. No incentive stock option granted under the Plan shall be exercisable after ten years from its grant date. If the incentive stock option is granted to a Principal Stockholder then the exercise period is five years from the date of grant. Every incentive stock option granted under the Plan shall be subject to earlier termination as expressly provided for in the Plan.

The option price for shares issued under the non-statutory stock options shall be determined at the sole discretion of the Board of Directors, but may not be less than 85% of the fair market value of the company's common stock, and the option may be of such duration as shall be determined by the Board of Directors.

As of December 31, 2011, no options have been granted under this plan.

#### NOTE 13 - CONCENTRATIONS

The Company had deposits with commercial financial institutions, which, at times, may exceed the FDIC insured limits of \$250 in the United States. Management has placed these funds in high quality institutions in order to minimize the risk. Cash held in Israel was \$638 and \$514 at December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010, we had two customers that accounted for approximately 91% and 92% respectively of accounts receivable. For the years ended December 31, 2011 and 2010 approximately 91% and 95% of our sales were to two customers respectively.

#### NOTE 14 - SEGMENT AND GEOGRAPHIC INFORMATION

Information about the Company's assets in different geographic locations at December 31, 2011 and December 31, 2010 is shown below:

	December 31, 2011	December 31,2010
Total assets		
Israel	\$ 11,918	\$ 9,116
United States	\$ 660	\$ 168
	\$ 12,578	\$ 9,284

All revenue was earned from sources in Israel.

#### NOTE 15 - COMMITMENTS AND CONTINGENCIES

##### Lease commitments

During 2011, the Company entered into a lease agreement on a building in the industrial zone of Carmiel. The agreement is for a period of 10 years. According to the agreement, the Company may opt for two renewal options of five years each.

Rent expense, including municipal taxes and utilities associated with the leases approximated \$113 and \$119, respectively, for the years ended December 31, 2011 and 2010.

At December 31, 2011, total minimum rentals under no cancellable operating leases with an initial or remaining lease term of one year or more are as follows:

Year Ended December 31,

2012	\$ 204
2013	\$ 204
2014	\$ 267
2015	\$ 267
2016	\$ 235

#### Legal proceedings

We are not subject to any pending or threatened legal proceedings, nor is our property the subject of a pending or threatened legal proceeding. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

#### NOTE 16 – SUBSEQUENT EVENTS

Subsequent events were evaluated as of the day the financial statements were issued.

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CONSOLIDATED FINANCIAL STATEMENTS FOR MICRONET LTD.

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AUDITOR'S REPORT

To the Board of Directors and Shareholders of

MICRONET LTD.

We have audited the accompanying consolidated balance sheets of Micronet Ltd. ("the Company") and its subsidiary as of December 31, 2011 and 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the abovementioned financial statements present fairly, in all material respects, the financial position of the Company and its subsidiary as of December 31, 2011 and 2010 and the results of their operations, the changes in their equity and cash flows for each of the years ended December 31, 2011 and 2010, in accordance with International Financial Reporting Standards ("IFRS").

Tel-Aviv, Israel  
March 18, 2012

/S/ Kost Forer Gabbay & Kasierer  
KOST FORER GABBAY &  
KASIERER  
A Member of Ernst & Young Global





MICRONET LTD.

## CONSOLIDATED BALANCE SHEETS

		December 31,	
	Note	2011	2010
		NIS in thousands	
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	3	8,337	3,546
Short-term investments	4	18,113	31,605
Trade receivables, net	5	9,431	2,299
Other accounts receivable	6	2,745	1,109
Inventories	7	21,353	7,514
		59,979	46,073
<b>NON-CURRENT ASSETS:</b>			
Receivables and prepaid expenses		89	53
Employee benefit assets	16	5,761	5,415
Property, plant and equipment, net	9	6,525	6,363
Intangible assets	10	120	216
		12,495	12,047
		72,474	58,120

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

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MICRONET LTD.

## CONSOLIDATED BALANCE SHEETS

		December 31,	
	Note	2011	2010
		NIS in thousands	
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Trade payables	11	15,991	2,577
Other accounts payable	12	5,574	3,538
Liabilities in respect of investment grant	14	-	1,068
Current maturities of convertible debentures	13	2,513	2,568
		24,078	9,751
<b>NON-CURRENT LIABILITIES:</b>			
Convertible debentures	13	2,106	3,963
Deferred revenues		64	-
Conversion options of convertible debentures	13	7	75
Employee benefit liabilities	16	8,493	7,844
		10,670	11,882
<b>EQUITY:</b>			
	19		
Share capital		1,931	1,931
Share premium		14,873	14,873
Capital reserve for share-based payment transactions		5,197	4,636
Retained earnings		15,725	15,068
Foreign currency translation adjustments of discontinued foreign operation		-	(21 )
Total equity		37,726	36,487
		72,474	58,120

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

MICRONET LTD.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2011                      2010 NIS in thousands (except per share data)	
Revenues	22a	44,888	18,465
Cost of revenues	22b	31,917	13,102
Gross profit		12,971	5,363
Selling and marketing expenses	22c	1,723	2,156
General and administrative expenses	22d	5,980	4,356
Research and development expenses	22e	5,174	4,579
Gain from disposal of property and equipment, net		(43 )	(22 )
Total operating expenses		12,834	11,069
Operating income (loss)		137	(5,706 )
Finance income	22f	1,239	2,061
Finance expenses	22g	(1,235 )	(1,632 )
Income (loss) before taxes on income		141	(5,277 )
Taxes on income	17	-	46
Income (loss) from continuing operations		141	(5,323 )
Income from discontinued operation, net	24	516	947
Net income (loss)		657	(4,376 )
Other comprehensive income (loss) (net of tax effect):			
Foreign currency translation adjustments of discontinued foreign operation		(11 )	(38 )
Transfer to profit or loss duo to sale of foreign operation		32	-
Total comprehensive income (loss)		678	(4,414 )
Net earnings (loss) per share (in NIS):	23		
Basic net earnings (loss) from continuing operations		0.0084	(0.316 )
Diluted net earnings (loss) from continuing operations		0.0079	(0.316 )

Basic net earnings from discontinued operation	0.03	0.056
Diluted net earnings from discontinued operation	0.029	0.053

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

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MICRONET LTD.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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	Share capital	Share premium	Capital reserve for share-based payment transactions NIS in thousands	Retained earnings	Foreign currency translation adjustments of discontinued foreign operation	Total equity
Balance at January 1, 2010	1,931					