LAPIS TECHNOLOGIES INC
Form S-1
December 14, 2012

As filed with the Securities and Exchange Commission on December 14, 2012
Registration No. 333-_____

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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

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

Delaware	3670	27-0016420
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

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)

David Lucatz
President and Chief Executive Officer
Lapis Technologies, Inc.
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Emerson, New Jersey 07630
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(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. o

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. o

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. o

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. o

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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
TOTAL	$10,625,000	$1,449.25

(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).

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.

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 DECEMBER 14, 2012

$ 10,000,000.00

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

We expect the initial public offering price to be between $_____ and $ _______ per share. 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 intend to apply to list our common stock on The NASDAQ Capital Market under the symbol “LPST”. On December ___, 2012, the last reported sale price for our common stock on the OTCQB was $______per share.

	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 $.

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.

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 __________ __, 2012

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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,” 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 subsidiaries, Enertec Systems 2001 Ltd, or Enertec, our wholly-owned subsidiary, and Micronet Ltd, or Micronet, our consolidated subsidiary, 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.

We acquired control of Micronet in September 2012, and it is currently 50.1% owned by us. Micronet operates in the growing mobile resource management, or MRM, market. Micronet designs, develops, manufactures and sells rugged mobile computing systems that provide fleet and workforce management solutions in challenging work environments. Micronet’s products are sold globally and facilitate workflow and fleet automation and communication, thus increasing workforce productivity and enhancing corporate efficiency.

Enertec designs, develops, manufactures and supplies various military computer-based systems, simulators, automatic test equipment and electronic instruments. Our solutions and systems are integrated into critical systems such as command and control, missiles fire control, support military aircraft, and are used by the Israeli Air Force and Navy and by foreign defense entities.

Our MRM tablets and mobile computers are integrated into MRM systems globally, with the United States being our main market. We combine our deep expertise in the industry with strong technical capabilities to provide a complete range of high quality products, systems and services for the MRM market. Our military solutions and products serve leading defense integrators for Israeli and other defense forces around the world. By integrating our abilities and focusing on business and project teams, we leverage our knowledge and experience, intellectual property and infrastructure to develop innovative solutions for our customers.

Our Market Opportunity

The defense and homeland security market in which we operate 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, missiles 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.

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The MRM market, in which the Company operates, is growing and researchers forecast it will continue its double digit growth in the coming years. In 2012, industry sources estimated that globally there are approximately 13.8 million subscribers to MRM services and forecasted that the number of subscribers will grow to approximately 32 million by 2016. In the United States, which historically has been Micronet's major market, there are currently approximately 5.7 million units in service, 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. 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.

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 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. 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 current 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. See “Management's Discussion and Analysis of Financial Condition and Results of Operations” for additional information.

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
Initial 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 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, to repay a portion of our outstanding indebtedness, which matures on March 1, 2014 and has an interest rate of 8% per annum, and for working capital and general corporate purposes.
OTCQB trading symbol	LPST
Proposed symbol and listing	We intend to apply 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 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. Warrants to purchase 952,227 shares are currently exercisable.

Unless specifically stated otherwise, all information in this prospectus assumes the following:

- no exercise of the underwriters' over-allotment option; and
- 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)				
Consolidated Statements of Operations Data:					
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
Income from operations	3,290	340	1,337	1,893	2,831
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	Pro Forma As Adjusted(1)
		(in thousands)	
Consolidated Balance Sheets Data:			
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		

(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 current 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.

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 (Raphael, Israeli Aerospace Industry). Following the acquisition of Micronet, PeopleNet Communications Corporation, 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 revenues outside the state of Israel. 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.

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 November 1, 2012). 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 initial public 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 November 1, 2012, no awards or options had been granted under the 2012 Stock Options 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 be 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 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 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.

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,” “be “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 excluded from 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.

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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 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, to repay a portion of our outstanding indebtedness, which matures on March 1, 2014 and has an interest rate of 8% per annum, and for working capital and general corporate purposes.

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. Our management has significant flexibility and broad discretion in applying the net proceeds received in this offering. However, 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.

The pro forma information below is illustrative only and our capitalization following the completion of this offering will be adjusted based on the actual initial 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 Lapis Technologies	7,463
Non-controlling interest in subsidiary	7,010
Total stockholders' equity	14,473
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 _____________ ___, 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 sale of the shares in this offering at the assumed public offering price of $__ per share, at _____________ ___, 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 _____________ ___, 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 ________ __, 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 initial 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(1)		%	$	%	$
New stockholders					

Total	100.0	%	100.0	%

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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			
	Lapis Historical	Micronet(1)	Adjustments	Pro Forma(2)
	(in thousands, except per share data)			
Statement of Operations Data:				
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
Operating expenses:				
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)
Shares used in computing:				
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 United States generally accepted accounting principles, or U.S. GAAP.

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

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

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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 subsidiaries, Enertec, our wholly-owned subsidiary, and Micronet, our consolidated subsidiary, 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.

We acquired control of Micronet in September 2012, and it is currently 50.1% owned by us. Micronet operates in the growing mobile resource management, or MRM, market. Micronet designs, develops, manufactures and sells rugged mobile computing systems that provide fleet and workforce management solutions in challenging work environments. Micronet's products are sold globally and facilitate workflow and fleet automation and communication, thus increasing workforce productivity and enhancing corporate efficiency.

Enertec designs, develops, manufactures and supplies various military computer-based systems, simulators, automatic test equipment and electronic instruments. Our solutions and systems are integrated into critical systems such as command and control, missiles fire control, support military aircraft, and are used by the Israeli Air Force and Navy and by foreign defense entities.

Our MRM tablets and mobile computers are integrated into MRM systems globally, with the United States being our main market. We combine our deep expertise in the industry with strong technical capabilities to provide a complete range of high quality products, systems and services for the MRM market. Our military solutions and products serve leading defense integrators for Israeli and other defense forces around the world. By integrating our abilities and focusing on business and project teams, we leverage our knowledge and experience, intellectual property and infrastructure to develop innovative solutions for our customers.

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 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. 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, the Company, through its 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, 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.

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 Capital LLC, a Delaware limited liability company, or 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.

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 D.L. Capital Ltd., our controlling stockholder, enter into a pledge agreement with UTA to pledge 1,000,000 shares of our common stock owned by D.L. Capital Ltd., (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 Date of March 1, 2014, and (v) that we satisfy within four months of September 7, 2012 the corporate governance requirements under 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 stock exchange.

On September 7, 2012, upon the occurrence of the Second Closing, Lapis issued to UTA pursuant to the Amended and Restated Note and Warrant Purchase Agreement (i) the Second 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, and (ii) the Second 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, such warrant exercisable beginning six months after September 7, 2012, until 66 months after September 7, 2012.

On November 8, 2012, we and UTA amended the terms of 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.

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 Micronet, or 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.

Enertec has covenanted under its bank loan that (i) its shareholders' equity according to its financial statements will not be below 10,000,000 NIS, and (ii) its shareholders' equity will not be lower than 20% of the total liabilities on its balance sheet. Enertec has met all of its 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.

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, due to obtaining less progress on long term projects based on percentage of completion.

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 of Micronet, 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 2012-2013.

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 subsidiaries, Enertec, our wholly-owned subsidiary, and Micronet, our consolidated subsidiary, 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.

We acquired control of Micronet in September 2012, and it is currently 50.1% owned by us. Micronet operates in the growing MRM market. Micronet designs, develops, manufactures and sells rugged mobile computing systems that provide fleet and workforce management solutions in challenging work environments. Micronet's products are sold globally and facilitate workflow and fleet automation and communication, thus increasing workforce productivity and enhancing corporate efficiency. Based on industry reports for the United States, Micronet's major market, the number of fleet management systems installed in trucks in active use is forecasted to grow at a CAGR of 15.9%, from 2.8 million units in 2011 to 5.9 million units by 2016, while in Europe it is forecasted to grow at a CAGR of 17.9%, from 2.5 million units in 2011 to 5.7 million units by 2016.

Enertec designs, develops, manufactures and supplies various military computer-based systems, simulators, automatic test equipment and electronic instruments. Our solutions and systems are integrated into critical systems such as command and control, missiles fire control, support military aircraft, and are used by the Israeli Air Force and Navy and by foreign defense entities.

Our MRM tablets and mobile computers are integrated into MRM systems globally, with the United States being our main market. We combine our deep expertise in the industry with strong technical capabilities to provide a complete range of high quality products, systems and services for the MRM market. Our military solutions and products serve leading defense integrators for Israeli and other defense forces around the world. By integrating our abilities and focusing on business and project teams, we leverage our knowledge and experience, intellectual property and infrastructure to develop innovative solutions for our customers.

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 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. 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

The Company has four subsidiaries. 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 Limited, a private Israeli company wholly owned by Enertec Electronics.

- Micronet, an Israel-based manufacturer and developer of rugged and military computers, tablets and computer based systems whose shares are traded on the Tel Aviv Stock Exchange, which became a subsidiary of Lapis in September 2012 through Enertec Electronics' acquisition of the controlling interest of Micronet. We currently own 50.1% of its outstanding common shares.

Enertec

Enertec designs, develops and manufactures electronic solutions and systems designed to perform in severe environments and battlefield conditions, primarily for military use on land, air and sea. These solutions and systems are tailored to customers' specifications and are, or are integrated into, critical weapon systems. Among our solutions are

- ruggedized portable command and control systems
- command and control stations
- fire control systems for missiles
- military aircraft support systems
- missile simulators
- laser systems
- power supplies and converters for military aircraft, missiles and portable ground stations

We also design and manufacture customized systems for electronics manufacturers in the military industry based on their specifications for the testing and ground support of missiles, aircraft and other defense systems.

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.

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 Enertec's advanced know-how. Management believes that Enertec's advanced 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 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, missiles 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.

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 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 Enertec 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 system integrators that need to incorporate in their overall solutions, systems or products advanced, large scale, state-of-the-art electronics defense systems. 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 Advanced Defense Systems Ltd. and the Israeli Aerospace Industries Ltd., or 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, air). Management believes that the demand for our products, systems and solutions is not affected significantly by fluctuations in any particular market 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 outside the state of Israel.

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. When this happens, it negatively affects our sales volume for the first and second quarters of the year. In addition, some of our customers push for increased deliveries during the last weeks of the year in order to fulfill contractual delivery obligations to their own customers. This often causes an upward spike in our fourth quarter sales.

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 long-term in-house experience and expertise and thus are not easily copied. Further, most of the production process is done 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 solution 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 that 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, the Company's business or financial position.

Micronet

Micronet is a mobile computing technology company based in Azor, Israel, near Tel Aviv, that is engaged in the design, development, manufacture and global marketing of rugged, automotive-grade, mobile computing systems for fleet and workforce management solutions. Micronet operates in the MRM market. Its computing products are designed to facilitate workflow automation and communication by increasing workforce productivity and enhancing corporate efficiency.

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 long standing expertise in the industry with strong technical capabilities to provide a comprehensive range of high quality products and solutions.

Micronet's products are a family of ruggedized mobile computing tablets and systems that 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 mobile applications solutions, provide fleet operators with visibility into vehicle location, fuel usage, speed and mileage, as well as other insights into their mobile workface, 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 busses, taxis and limousine services;
- construction, which refers to vehicle fleets that are involved in the construction industry;
- service industries, which include insurance companies, rental car companies and other companies operating large mobile service force of technicians, installers and similar personnel; and
- public safety services, which includes fire department vehicles, ambulances and police vehicles.

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) and commenced sales to strategic customers, significantly increasing its revenues in 2011 and 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 systems, compared to 24,000 systems during the nine months ended September 30, 2011 and 37,000 systems 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.
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Upgrading and enhancing current products and engaging in new product development based on input from clients and partners.

- Leveraging our know how and relationships with major truck manufacturers to offer a fit-to-purpose OEM platform that will be embedded in the trucks.

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 model. The CE300 aims to provide customers with enhanced features and capabilities, optimized for their specific requirements, at a lower cost.

Market opportunity

Management believes that Micronet is well positioned to pursue a substantial market opportunity. The MRM market, in which the Company operates, is growing and researchers forecast it will continue its double digit growth in the coming years. In 2012, industry sources estimated that globally there are approximately 13.8 million subscribers to MRM services and forecasted that the number of subscribers will grow to approximately 32 million by 2016.

In the United States, which historically has been Micronet's major market, there are currently approximately 5.7 million units in service, 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 State, which is the most advanced market, the penetration rate was approximately 15% in 2011. 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 a family of Mobile Data tablet systems, in three broad categories: Entry Level, Mid-Range and Advanced. The products range from the CE-500 series, available in a variety of product configurations, to basic display products for two-way messaging communication.

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 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 developer tool kit and software development kit 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.

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 (U.S.B, 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 development tool kit 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 development kit and software development kit for independent application development, supported by our technical support team.

Advanced Products, CE500 and CE300 Series (covers our premier products with high level of capability and functionality that are offered at high-end prices)

- CE500 series. Micronet's latest line of products, the CE500 series, were launched in 2011. It is a Microsoft WinCE based mobile computing platform, uniquely designed for cabin mounted rugged computer and portable MRM applications. It offers a large 7" (CE-507) or 4.3" (CE-504) (to fit smaller commercial vehicles) 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.

- The CE300 series. Novel layered architecture provides original equipment manufacturers, or OEMs, and telematics services providers, or TSPs, which provide services 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. The CE-500 has development packages for independent application development and it is supported by our technical support.

Development Toolkit. Micronet's development package, also called Development Tool Kit (DTK), is intended for customers who wish to develop their own applications and to support automatic vehicle location (AVL)/ fleet management. The development package provides all the tools required for application development quick-start, product testing and product evaluation. Micronet's systems are utilized today in numerous vertical markets, including long/short haul for trucking and distribution, passenger transportation and dispatching (buses, shuttles, taxis and rentals), utilities and municipalities, public safety (police, fire, ambulances), and technical field services. Micronet's systems are implemented in over 20 countries. Application Service Providers, or ASPs, Value Added Resellers, or VARs, 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, 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:

- Development Tool Kit (DTK) Support: Standard support, offered at no extra charge, to customers who have purchased 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.

Micronet customarily provides its customers with a 12-month warranty, with an option to extend such warranty, subject to the payment of applicable fees.

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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 application service providers , or ASPs, and solution providers specializing in the fleet and MRM markets. Currently, Micronet does not sell to end-users. Its customers are generally leading players in the MRM market, such as PeopleNet, which is a subsidiary of Trimble Navigation Limited, 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. 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. Micronet's systems are currently utilized in numerous vertical markets, including:

- long/short haul for trucking and distribution,
- passenger transportation and dispatching (buses, shuttles, taxis and rentals), and
- utilities and municipalities, public safety (police, fire, ambulances) and technical field services.

Micronet's main target markets are currently the U.S. and European markets.

Market Segments

Micronet targets a number of different sectors in which it believes the deployment of rugged automotive-grade mobile computing systems can greatly improve operating efficiencies and reduce related costs. These market segments include: trucking and distribution - long haul, short haul, local; construction - cement trucks, aggregate, heavy equipment; technical services – repair and maintenance technicians; public transportation - buses, schools, para-transit, taxis; municipalities/utilities - waste management, field workers; public safety – police, fire, ambulances, forestry.

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 a new improved model of the CE-500 series, entitled CE300, 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 finances 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" specialist solutions characterized by highly professional, mission critical and complex technological solutions. These solutions based on our products can 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., the 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 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;
- long-standing 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 reached 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;

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- increased factory facilities and upgraded various infrastructures;
- entered into an agreement with a leading subcontractor in the field which operates two additional manufacturing facilities, has significant procurement and manufacturing capabilities and resources outside Israel that Micronet can take advantage of;
- 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 long-term in-house experience and expertise and thus are not easily copied. Further, most of the production process is done in house with the exception of certain specific components which 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 under which the Company has purchased “like ownership” rights from the Israeli Land Administration, or the ILA, or the Long Term Lease. Our 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 are comprised of approximately 900 square meters 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 is comprised of approximately 1,100 square meters 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 via 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 the board of directors and appointed as President and Chief Executive Officer of the Company 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 and Chief Executive Officer of D.L. Capital Ltd., or 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 Tel Aviv Stock Exchange 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 the Company with the comprehensive and valuable perspective and judgment necessary to guide the Company's 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 the Chief Financial Officer of the Company 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 enable him to provide effective oversight of the Company 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 of the Company:

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 10 years ago leading 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 position 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.

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 Stock Market. 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 Stock Market. In accordance with the Listing Rules of the NASDAQ Stock Market 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 Stock Market (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 Stock Market.

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.

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EXECUTIVE COMPENSATION

Summary Compensation Table

The following information is furnished for the year ended December 31, 2011 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)	2011	$ 208,183	$ 85,334	$ 293,517
Tali Dinar CFO and Secretary(1)	2011	$ 117,585	$ 19,828	$ 137,413

(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 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).

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 3 years, for a salary of 25,000 NIS (approximately $6,500) per month. Following an agreed extension, the Agreement will be 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

The Company did not have any equity awards outstanding as of December 31, 2011 and December 1, 2012.

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 the Company’s majority stockholder, sold to DLC the remaining 1,443,670 shares of common stock of the Company 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 common stock of the Company.

On March 2, 2011, Mr. Mund sold to Enertec Management Ltd., an indirect, wholly-owned subsidiary of the Company, 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 an indirect, wholly-owned subsidiary of the Company.

Mr. Lucatz was 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 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 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 is further subject to the approval of Micronet’s shareholders at a special meeting called for December 24, 2012 for that purpose and shall be signed thereafter upon receipt of the required approval. 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 November 1, 2012 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	Percentage of Shares Beneficially Owned After the Offering
5% Stockholders				
D.L. Capital Ltd.(2)	5,194,400		80.1	
UTA Capital LLC(3)	952,227	(3)	12.8	
Zvi Avni	500,000		7.7	
Directors and Named Executive Officers				
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 November 1, 2012 together with securities exercisable or convertible into shares of common stock within 60 days of November 1, 2012 for each stockholder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of November 1, 2012 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 the Company's 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 November 1, 2012, 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 to purchase 600,000 shares of common stock at an exercise price of $0.65 per share, which is first exercisable on March 7, 2013. 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.

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DESCRIPTION OF CAPITAL STOCK

General

As of November 1, 2012, 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 November 1, 2012, there are 6,483,000 shares of our common stock issued and outstanding and no shares of preferred stock that are issued and outstanding. As of November 1 2012, 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 December 1, 2012, we had no stock options issued and outstanding.

Warrants

As of December 1, 2012, we had 1,552,227 warrants outstanding, 952,227 of which are exercisable, 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 Delaware General Corporation Law. 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 Delaware General Corporation Law 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 intend to apply 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 __________ 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. 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 ___________ __, 2012 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 of 1933, 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 $71,775. We have paid an advance of $25,000 to the Representative, and, upon filing the registration statement of which this prospectus forms a part, will pay the Representative an additional $25,000 advance, each of which will be applied against the non-accountable expenses that will be paid by us to the Representative in connection with this offering. 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, we have no present arrangements with any of the underwriters for any further services.

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 Nasdaq, in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

Initial Public Offering of Common Stock

Prior to this offering, there was no established public market for our shares of common stock. The initial public offering price will be determined by negotiations between us and the Representative. In determining the initial public 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 initial public 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

(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 Tel Aviv Stock Exchange, 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.

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

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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 the Company's independent registered public accounting firm, effective immediately. The dismissal of Paritz was approved by our board of directors. Paritz's reports on the consolidated financial statements of the Company 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, the Company engaged BDO Ziv Haft as the Company's new independent registered public accounting firm. The engagement of BDO Ziv Haft was approved by the Company's Board of Directors. During the fiscal years ended December 31, 2011 and 2010 and through the date of the engagement of BDO Ziv Haft, the Company 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 the Company's 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 Ltd., 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 Ltd., 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, 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. 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
ASSETS		
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
Total current assets	12,071	8,794
Assets of discontinued operations	-	207
Property and equipment, net	482	255
Long Term Deposit	22	21
Deferred income taxes	3	7
	$12,578	$9,284
LIABILITIES AND STOCKHOLDERS' EQUITY		
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
Total current liabilities	4,111	4,433
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	-
Total liabilities	8,966	5,239
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.

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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	Year Ended December 31, 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.

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

	Year Ended December 31, 2011	Year Ended December 31, 2010
Cash flows from operating activities:		
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)
Severence 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
Cash flows from investing activities:		
Purchase of property and equipment	(293)	(162)
Long-term depostits	(1)	21
Additional acquisition of non-contolling interest	(1,500)	-
Net cash used in investing activities - continuing operations	(1,794)	(141)
Cash flows from financing activities:		
Repayment of short term bank loans	(256)	(2,294)
Decrease in due to affilliates		
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
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.

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 Stock Shares	Common 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.

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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.

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 $294and $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 Pronouncem