LAPIS TECHNOLOGIES INC
Form 10-K
March 30, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from ________________ to ________________

Commission file number 333-100979

LAPIS TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	27-0016420
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

70
Kinderkamack
Road, Emerson,

New Jersey 07630
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (201) 225-0190

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act: None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes x No ¨

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the issuer's common equity held by non-affiliates, as of June 30, 2011 was approximately $1,918,108 based on the average closing bid and ask price of the common stock on the over-the-counter market of $6.65 per share. For the purpose of this statement, all directors, executive officers and any shareholders holding over 10% of the Company's issued share capital are considered to be affiliates.

As of March 29, 2012, there were 6,483,000 shares of the issuer's common stock outstanding.

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PART I

Item 1. Business.

Lapis Technologies, Inc. ("Lapis" or the "Company") was formed in Delaware on January 31, 2002 under the name Enertec Electronics, Inc. The Company through its wholly-owned subsidiary Enertec Systems 2001 Ltd ("Enertec Systems"), an Israeli corporation formed on August 28, 2001, is a manufacturer and provider of various military and airborne systems, simulators, automatic test equipment (“ATE”), electronic components and products related to power supplies, converters and other power conversion products. Our business is focused in two major product lines: (i) the development and manufacturing of simulators and automatic test equipment (ATE) to a large variety of command and control 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.

Our operations are located in Israel and serve leading Israeli defense integrators in the market for both local Israeli and worldwide sales. We combine our deep expertise in the industry with strong technical capabilities to provide a complete range of high quality products, systems and services on a global scale. By integrating our abilities and focusing on business and project teams, we leverage our corporate knowledge and experience, intellectual property and infrastructure to develop innovative solutions for clients we serve worldwide.

The management of Lapis has begun to implement its strategy of focusing on developing comprehensive electronics turn-key solutions via its wholly-owned subsidiary Enertec Systems. This strategy potentially includes larger scale transactions that we anticipate could result in higher revenue as well as increased gross margin and overall profitability. Presently, Lapis conducts its operations in Israel through its wholly owned subsidiary Enertec Systems, located in Karmiel in the northern part of Israel .

Our vision is to become a major defense/Homeland Security (“HLS”) group. Our strategy is driven and focused on the continued internal growth of Enertec Systems through diligent efforts in the development of new potential markets as well as new technologies and innovative systems and products. In order to achieve our internal growth, the Company enhanced its production capacity by moving to a larger facility in January 2012. Management believes that this will support and contribute to the growth of the Company business in 2012 and beyond. Our current targeted markets in which we concentrate the majority of our resources including our marketing and sales efforts are the Israeli domestic market, the United States markets as well as the large growing Indian defense market. For that purpose, the Company has establish a new joint venture pursuant to which it has entered into a joint venture agreement with a leading local industrial group for the formation of a local manufacturing and marketing platform of its products based on the Enertec Systems technology and know-how. The formation of the joint venture will provide Enertec Systems with the ability to deliver new competitive offset solutions to its existing customers. The joint venture is expected also to create for Enertec Systems new business opportunities in Indian and nearby markets and assist it in penetrating such markets.

In supporting our vision and market strategy, we have nominated an advisory board for Enertec Systems composed of various leaders in the Israeli defense and financial industries. We continue to explore new and various ways to strengthen our financial position including public and/or private capital raises.

In parallel, our management is looking into several potential acquisitions of target companies with synergetic businesses and that will allow us to enlarge the variety of our solutions to the market and increase our competitiveness. To support our growth strategy we have raised from UTA Capital LLC, a Delaware limited liability company ("UTA") $3.0 million, and secured up to an additional $3.0 million for future acquisition subject to the terms and conditions of the Note and Warrant Purchase Agreement by and between Lapis and UTA, as amended.

Subsidiaries

The Company is the sole owner (100%) of Enertec Electronics Ltd, a private Israeli company which, on October 17, 2010, sold pursuant to an asset purchase agreement all or substantially all of its assets and business for an aggregate consideration of 1,020,000NIS (approximately $278,000) (see also note 2 to the Consolidated Financial Statements) and consequently became an inactive holding company. Enertec Electronics is the sole owner of Enertec Management Limited (f/k/a Elcomtech Ltd.), a private Israeli company ("Enertec Management"). Enertec Management is the sole owner of Enertec Systems, our operating subsidiary. In March 2011, Enertec Management acquired from Mr. Harry Mund (a former chief executive officer and director) his entire shareholdings in Enertec Systems (see note 3 to the Consolidated Financial Statements). As a result, Enertec Systems became a wholly-owned subsidiary of Enertec Management.

Enertec Systems operational aspects

Enertec Systems designs, develops and manufactures various electronic military systems for air, land and sea applications. Among its products are power supplies, laser drivers, mission computers and control systems for motor and pumps, radio transceivers, altitude measuring devices, ground systems for missile control and sub-assemblies. We also design and manufacture test systems for electronics manufacturers in the military industry based on their specifications for the test and ground support of missiles, aircraft and other defense systems. Enertec Systems manufactures customized military related products. Enertec Systems holds high security clearance requirements in Israel for the most sensitive defense programs.

Our quality control systems are compliant with ISO900:2008. The International Organization for Standardization "ISO") designated ISO9000:2008 to apply to organizations that design, develop, produce, install, and service products. ISO expects organizations to apply this model, and to meet certain requirements, by developing a quality control system. ISO9000:2008 is the international standard for quality assurance and quality design. The ISO9000:2008 standard is important to customers who are placing orders for custom made products and is made up of a combination of quality system requirements. A typical process for designing, planning and implementing a quality system involves:

- Planning the quality initiative and obtaining executive sponsorship;
- Establishing the quality policy for the organization;
- Designing and planning the Quality Management System (QMS), usually based on international standards;
- Establishing the quality organization, developing the quality manual and structure of quality records;
- Determining the scope of implementation;
- Assuring quality plans;
- Reviewing deliverables and determining any actions;
- Auditing quality records;
- Defining areas for process improvement; and
- Managing the improvement program.

New products

In addition to its traditional systems and products manufactured and marketed by Enertec Systems (such as testing and simulators systems and power supplies), we have been working to develop new systems 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. All such systems utilize Enertec Systems' state of the art and leading market technologies which are to be implemented in a variety of our customers' strategic projects in land, air and sea.

Marketing strategies

Our sales and marketing efforts focus on developing new business opportunities as well as generating follow-on sales for our systems solutions. Our sales efforts include direct sales primarily using our internal sales team. 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 domestic and international relationships to increase our sales and market penetration. We actively participate in trade shows involving technology and electronics defense operations. Recently we formed a new joint venture in India which will be used as a marketing platform as well for the Company's products, systems and solutions in Asia and other parts of the world. Our customers are often system integrators for end user clients worldwide and act as a channel for our products to be provided to the end users. Additionally, our business development efforts include our web site, preparation and distribution of marketing materials, advertising directed toward the defense and home land security industry, and demonstration of our product capabilities.

We plan to continue our aggressive marketing efforts. Part of our success within Enertec Systems has been to anticipate the needs of our clients, invest in R&D and to initiate development of products that we believe they will need, thus gaining an edge on our competition in our time to market. Furthermore, we have been able to identify those of our clients and potential clients that look poised to receive large orders and we focus our attention on developing our relationship with that client. When successful, this strategy enables us to benefit from the large order flow that such charts receive both in terms of the typical products they would expect us to produce for them as well as the more sophisticated products that they might not expect that we are then in an excellent position to offer to them, especially if they are inundated with business. In such cases, we are able to step in and ease the burden of producing some of the non-core components as well as some of the core components. By continuously diversifying into new and more complex products and fully scaled systems, Enertec Systems has been able to set itself 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.

Market conditions

The defense and homeland security market in which the Company operates includes the manufacturing of electronic systems and electro optics systems designed to enhance large-scale military land, airborne and seaborne tactical platforms. Such systems may include night visions systems, UAV's systems, laser products, airborne photography measures, processing and display of data systems and communications systems. In the Israeli market, Israeli companies 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 have demonstrated an increase in the demand for military and security products.

Customers

Our customers are primarily Israeli companies which incorporate or need to incorporate in their products advanced, large scale, high end, state-of-the-art electronics defense systems. Although approximately 90% of our annual revenues in the past two years were from the two leading Israeli defense groups and therefore we have been dependent on these clients, each such group is comprised of various independent business units and factories, thereby adding diversity to our revenue streams. We believe that in light of the segments in which our customers market their solutions, the marketability of our products is not limited to one specific market segment, and therefore our overall performance is less affected by fluctuation in any particular market. The reminder of our sales are divided between our other customers, such as the Elbit group.

Backlog

As of December 31, 2011, we had a backlog of orders for our systems, products and services in the amount of approximately US$11.5 million (including US$2.8 million in framework orders) as compared to a backlog of approximately $13.3 million as of December 31, 2010 (including US$2.9 million framework orders). In January 2011, additional orders increased our backlog by approximately US$3.0 million.

Competition

Our main competition is comprised of (i) customers' internal electronic divisions offering to do their own testing systems and core component manufacturing in house and (ii) a number of relatively small companies which specialize in electronics systems that operate in our market.

Suppliers

Our suppliers are diversified, and we are not dependent upon a limited number of suppliers for essential raw materials, energy or other items. Our suppliers are well established with facilities and manufacturing abilities that comply with all relevant international standards. However, while we are not dependent on any one supplier, disruptions in normal business arrangements due to the loss of one or a few suppliers could cause possible short-term losses. Disruptions may be experienced if our existing suppliers are no longer able to meet our requirements. They may also occur if there is an industry shortage of electronic or mechanical components. Not only could these disruptions affect our product line and limit our production capacity, but also, if there is a shortage of components, such disruption could result in higher costs due to the supply shortage or the need to use higher cost substitute components. The raw materials we use are either electronic components or mechanical components. The electronic components are purchased from suppliers and the mechanical components are mainly manufactured by local subcontractors.

Employees

As of December 31, 2011, we had approximately 81 full-time employees. Of these total employees, 86% of the employees 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 and sustainable relations with our employees.

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% and 2% of revenues, respectively, for both periods. These expenditures have adequately satisfied our research and development requirements. 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 due to the fact that the Israeli Ministry of Defense frequently delays the release of budgets until near the end of the fiscal year. Therefore, new orders to the military industry are delayed, leading to delays of orders to the local subcontractors. When this happens, it negatively affects the sales volume of 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 customers and also to show better business results. This often causes an upward spike in our fourth quarter sales.

Patents and trademarks

We are not dependent on patents or trademark protection with regards to the operation of our business and do not expect to be at any time in the future.

Regulation

Our 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.

Item 1A. Risk Factors.

An investment in our shares is, of course, subject to risks and uncertainties. Investors should consider the following factors, prior to deciding whether to purchase 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 the defense market and our revenues are concentrated among two leading Israeli defense groups that perform strategic long-term projects for the Israeli government. 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.

We depend on two major customers for a significant portion of our revenues. More than 91% of our annual revenues in the past two years were from the two leading Israeli defense groups, (Raphael, Israeli Aerospace Industry) that perform large scale strategic projects for the Israeli government among other tasks. Israeli defense spending historically has been driven by perceived threats to its national security. Although Israel has been under a sustained elevated threat level in recent years, we cannot provide any assurance that defense budgets 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.

Our future success depends, in part, on our ability to develop new products and maintain a qualified workforce to meet the needs of our customers. Virtually all of the products that we produce and sell are highly engineered and require sophisticated manufacturing and system-integration techniques and capabilities. The commercial and government markets 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 in part 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 not be covered by indemnity or insurance. A significant portion of our business relates to developing products for defense-related 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. Where possible, we seek indemnification from our customers. 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 business, which could have a material adverse effect on our operating results, financial condition, and/or cash flows.

Our earnings and margins depend on our ability 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 depend in part on subcontractor performance, as well as raw material and component availability and pricing. 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.

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 March 29, 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.

Item 1B. Unresolved Staff Comments.

Not Applicable.

Item 2. Properties.

Our properties consist of leased combined office and manufacturing facilities used for sales, support, research and development, manufacturing, consulting and our headquarters (management and administrative personnel). Our offices and facilities currently consist of approximately 25,000 square feet located in Karmiel, Israel leased at approximately US$200,000 per annum. The current lease of the facilities supports the Company's current needs however, Company's management, in view of its expectations for growth in the Company's business and manufacturing needs, is exploring various alternate long-term lease opportunities primarily near our current location for a larger facilities space that is designed to support our growing manufacturing and delivery needs. Such larger spaces are generally available in the northern part of Israel.

Item 3. Legal Proceedings.

The Company is not subject to any legal proceedings that has materially affected, or is reasonably likely to materially affect, the Company’s business or financial position.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Transactions in our common stock are currently reported in the United States under the symbol "LPST" on the "Pink Sheets", a quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter equity securities. The following table sets forth the range of high and low closing bids reported in the over-the-counter market for our common stock. The prices shown below represent prices in the market between dealers in securities; they do not include retail mark-up, mark-down or commissions, and do not necessarily represent actual transactions. The "Pink Sheets" is neither a stock exchange nor a self-regulatory organization and is not regulated by either the Financial Industry Regulatory Authority or the SEC.

	High	Low
Year Ended December 31, 2011		
First Quarter	$0.25	$0.20
Second Quarter	$2.00	$0.40
Third Quarter	$1.05	$1.05
Fourth Quarter	$1.11	$1.05
Year Ended December 31, 2010		
First Quarter	$0.105	$0.10
Second Quarter	$0.101	$0.101
Third Quarter	$0.20	$0.20
Fourth Quarter	$0.20	$0.20

Holders

As of March 29, 2012, we had 6,483,000 shares of common stock outstanding and such shares were held by approximately 40 stockholders of record. The transfer agent of our common stock is Continental Stock Transfer and Trust Company.

Dividends

The Company did not declare or pay cash dividends in either 2011 or 2010. The Company has 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.

Equity compensation plan information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	-0-	-0-	500,000
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	-0-	-0-	500,000

2002 Stock option plan

We adopted, subject to stockholder approval, our 2002 Stock Option Plan on October 16, 2002. Our stockholders approved the plan on October 16 2002. The plan provides for the grant of options intended to qualify as "incentive stock options", options that are not intended to so qualify or "nonstatutory stock options" and stock appreciation rights. The total number of shares of common stock reserved for issuance under the plan is 500,000, subject to adjustment in the event of a stock split, stock dividend, recapitalization or similar capital change, plus an indeterminate number of shares of common stock issuable upon the exercise of "reload options" described below. We have not yet granted any options or stock appreciation rights under the plan. The plan is administered by our board of directors, which will select the eligible persons to whom options shall be granted, determines the number of common shares subject to each option, the exercise price therein and the periods during which options are exercisable, interprets the provisions of the plan and, subject to certain limitations, may amend the plan. Each option granted under the plan shall be evidenced by a written agreement between us and the optionee. Options may be granted to our employees (including officers) and directors, any of our subsidiaries, and certain of our consultants and advisors. Incentive stock options can be issued to all employees (including officers). Nonstatutory stock options can be issued to employees, non-employee directors, or consultants and advisors.

The exercise price for incentive stock options granted under the plan may not be less than the fair market value of the common stock on the date the option is granted, except for options granted to 10% stockholders which must have an exercise price of not less than 110% of the fair market value of the common stock on the date the option is granted. The exercise price for nonstatutory stock options is determined by the board of directors, in its sole discretion, but may not be less than 85% of the fair market value of the Company's common stock at the date of grant. Incentive stock options granted under the plan have a maximum term of ten years, except for 10% stockholders who are subject to a maximum term of five years. The term of nonstatutory stock options is determined by the Board of Directors. Options granted under the plan are not transferable, except by will and the laws of descent and distribution. The board of directors may grant options with a reload feature. Optionees granted a reload feature shall receive, contemporaneously with the payment of the option price in common stock, a right to purchase that number of common shares equal to the sum of (i) the number of shares of common stock used to exercise the option, and (ii) with respect to nonstatutory stock options, the number of shares of common stock used to satisfy any tax withholding requirement incident to the exercise of such nonstatutory stock option. Also, the plan allows the board of directors to award to an optionee for each share of common stock covered by an option, a related alternate stock appreciation right, permitting the optionee to be paid the appreciation on the option in lieu of exercising the option. The amount of payment to which an optionee shall be entitled upon the exercise of each stock appreciation right shall be the amount, if any, by which the fair market value of a share of common stock on the exercise date exceeds the exercise price per share of the option.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This yearly report on Form 10-K (the "Report") contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those in the forward-looking statements as a result of various important factors. Although we believe that the expectations reflected in the forward-looking statements are reasonable, such should not be regarded as a representation by Lapis Technologies, Inc. ("Lapis" or the "Company"), or any other person, that such forward-looking statements will be achieved. The business and operations of Lapis Technologies, Inc. and its subsidiaries are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this Report. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed under "Risk Factors," included in this annual report on Form 10-K for the period ended December 31, 2011. The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Report.

Executive overview

Lapis Technologies, Inc. ("Lapis" or the "Company") was formed in Delaware on January 31, 2002 under the name Enertec Electronics, Inc. The Company via our wholly-owned subsidiary Enertec Systems 2001 Ltd ("Enertec Systems"), an Israeli corporation formed on August 28, 2001, is a manufacturer and provider of various military and airborne systems, simulators, automatic test equipment ("ATE"), electronic components and products related to power supplies, converters and other power conversion products. Our business is focused in two major product lines: (i) the development and manufacturing of simulators and automatic test equipment (ATE) to a large variety of command and control 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.

Our operations are located in Israel and serve leading Israeli defense integrators in the market for both local Israeli and worldwide sales. We combine our deep expertise in the industry with strong technical capabilities to provide a complete range of high quality products, systems and services on a global scale. By integrating our abilities and focusing on business and project teams, we leverage our corporate knowledge and experience, intellectual property and infrastructure to develop innovative solutions for clients we serve worldwide.

Liquidity and Capital Resources

As of December 31, 2011, our cash balance was $940,000 as compared to $626,000 at December 31, 2010. Total current assets at December 31, 2011 were $12,071,000 as compared to $8,794,000 at December 31, 2010.

Our accounts receivable at December 31, 2011 were $7,947,000 as compared to $4,532,000 at December 31, 2010. The increase of 75% in accounts receivable is mainly due to a delay in the collection of $1,700,000 which was received on January 1, 2012.

As of December 31, 2011, our working capital was $7,960,000 as compared to $4,361,000 at December 31, 2010. The increase in working capital is due primarily to the increase in accounts receivables. The current portion of long-term loans as of December 31, 2011 was $1,766,000 as compared to $93,000 at December 31, 2010. We had no short term loans as of December 31, 2011, as compared to $256,000 as of December 31, 2010.

As of at December 31, 2011, our total debt was $6,352,000 of which $3,000,000 consists of a loan from UTA, warrants liability in the amount of $799,000 and the remainder is commercial bank debt, as compared to $910,000 at December 31, 2010. These funds were borrowed as follows: $1,766,000 as various short-term bank loans with current maturities due through 2011, and $4,586,000 using long-term loans. As a result, we increased the amount borrowed for the year ended December 31, 2011 by $5,442,000 compared to December 31, 2010. The increase is due to an increase in working capital needs and the acquisition of the remaining 27% of the shares of our wholly-owned subsidiary, Enertec Systems.

As of December 31, 2011, we are current with (i) all of our bank debt and compliant with all the terms of our bank debt (ii) all of our UTA debt and compliant with all the terms of our UTA debt.

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 growth of our business, 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, the levels and costs of our research and development initiatives, the cost of hiring and training additional highly skilled professionals (mainly engineers and technicians), qualified stronger management, sales and marketing personnel to promote our products and the cost and timing of the expansion of our development, manufacturing and marketing efforts.

Based on our current business plan, we anticipate that our existing cash balances 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, we may undertake additional debt or equity financings to better enable us to grow and meet our future operating and capital requirements. There is no assurance that we will be able to consummate such offerings on favorable terms or at all. 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

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.

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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 (i) change of control in Lapis in November 2009 and the increased general and administrative expenses incurred as a result of the new controlling shareholder's during 2010 as compared to 2011, desire to strengthen the Lapis and/or Enertec Systems management and corporate headquarters services to the business unit 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 are reasonably likely to have a current or future effect on our financial condition, revenues, and results of operations, liquidity or capital expenditures.

Critical Accounting Policies

Concentration of Credit Risk - Concentrations of credit risk with respect to trade receivables are limited to customers dispersed primarily across Israel. All trade receivables are concentrated in the manufacturing and distribution of electronic components segment of the economy; accordingly the Company is exposed to business and economic risk. Although the Company does not currently foresee a concentrated credit risk associated with these trade receivables, repayment is dependent upon the financial stability of this segment of the economy.

Revenue Recognition and Customer Deposits - Revenue is recorded as product is shipped, the price has been fixed or determined, collectability is reasonably assured and all material specific performance obligations have been completed. The product sold by the Company is made to the specifications of each customer; sales returns and allowances are allowed on a case-by-case basis, are not material to the financial statements and are recorded as an adjustment to sales. Cash payments received in advance are recorded as customer deposits (see note 2 to the Consolidated Financial Statements).

Financial Instruments - The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, bank line of credit, short term bank loans and accounts payable and accrued expenses approximate fair value at December 31, 2011 because of the relatively short maturity of the instruments. The fair value due from stockholder is not practical to estimate without incurring excessive cost and is carried at cost at December 31, 2011. The carrying value of the long-term debt approximate fair value at December 31, 2011 based upon debt terms available for companies under similar terms

Foreign Currency Translation - Lapis has three wholly owned subsidiaries, each of which is an Israeli corporation. The assets and liabilities of the foreign subsidiaries are translated at current exchange rates and related revenues and expenses at average exchange rates in effect during the periods reported. Resulting translation adjustments, if material, are recorded as a separate component of accumulated other comprehensive income or loss.

Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We believe the most complex and sensitive judgments, because of their significance to our consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. There were no significant changes in our critical accounting estimates during the year ended December 31, 2011.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

The "Report of Independent Registered Public Accounting Firm", the "Consolidated Financial Statements" and the "Notes to Consolidated Financial Statements" appearing on pages F-1 to F-16 of this Annual Report on Form 10-K are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation with the participation of the Company's management, including David Lucatz, the Company's Chief Executive Officer ("CEO") and Mrs. Tali Dinar, the Company's CFO ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of the period ended December 31, 2011. Based upon that evaluation, the Company's CEO and CFO concluded that as of December 31, 2011 the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with US generally accepted accounting principles.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as referred to above as of December 31, 2011 as required by Rule 13a-15(c) under the Exchange Act. In making this assessment, we used the criteria set forth in the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in Internal Control — Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2011.

Changes in Internal Control Over Financial Reporting

Our management, with the participation our CEO and CFO, performed an evaluation as to whether any change in our internal controls over financial reporting occurred during the quarter ended December 31, 2011. Based on that evaluation, our CEO and CFO concluded that no change occurred in the Company's internal controls over financial reporting during the quarter ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The members of our board of directors and our executive officers, together with their respective ages and certain biographical information are set forth below. Our director 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	55	Chairman of the Board, Chief Executive Officer, And President
Tali Dinar	40	CFO and Secretary

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. Since May 2010, Mr. Lucatz has been serving as the President of Enertec Systems 2001 Ltd. ("Enertec Systems"), one of our indirect wholly-owned subsidiaries. Since 2006, he has been the Chairman of the Board and Chief Executive Officer of D.L. Capital Ltd. ("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 has been 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 systems and solutions for the defense, warfare 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 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 and has been the Chief Financial Officer of Enertec Systems since November 2009. Since October 2009, Mrs. Dinar has served as vice president, finance of the DL-Capital group. where she is responsible for implementing internal control and driving major strategic financial issues and serves as key advisor to the company's management. 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.

Significant Employees

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

Zvi Avni, age 50, has been CEO of Enertec Systems since January 1, 2002. Mr. Avni has 28 years of experience with automatic test equipment ("ATE") systems for the military market and worked at Elbit Systems for 12 years as an ATE group leader. Mr. Avni has strong and valuable long-term relations with our clients and has a key role in Enertec Systems' sales performance. Mr. Avni graduated from Haifa Technion Institute of Technology in 1982 and earned a degree as a Practical Electronic Engineer.

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.

Audit Committee

Our Board of Directors is currently comprised of one director and the Board acts as our Audit Committee. The Board has not designated an audit committee financial expert. Should the Board of Directors expand, the Board will seek to find candidates who possess the attributes of an audit committee financial expert as described in Item 407(d)(5)(ii) of Regulation S-K.

Changes in Nominating Process

None.