LAPIS TECHNOLOGIES INC
Form 10KSB
March 30, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)
[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

[_] TRANSITION REPORT UNDER SECTION13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM __________ TO __________ COMMISSION FILE NUMBER ________________________________

LAPIS TECHNOLOGIES, INC.

(Name of small business issuer in its charter)

DELAWARE	27-001666420
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

19 W. 34TH STREET, SUITE 1008, NEW YORK, NY 10001

(Address of principal executive offices) (Zip Code)

Issuer's telephone Number: (212) 937-3580

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. [X]

State issuer's revenues for its most recent fiscal year: $6,176,000

The aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the average bid and asked price of such common equity as of March 25, 2005, was $1,035,320.

As of March 25, 2005, the issuer had 5,483,000 outstanding shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

Transitional Small Business Disclosure Format (check one): Yes [_] No [X]

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

GENERAL

We were formed in Delaware on January 31, 2002 under the name Enertec Electronics, Inc. and have filed two Certificates of Amendment changing our name to Opal Technologies, Inc. and then to Lapis Technologies, Inc. We conduct operations in Israel through our wholly owned subsidiary, Enertec Electronics Limited ("Enertec Electronics"), an Israeli corporation formed on December 31, 1991, and Enertec Systems 2001 LTD ("Enertec Systems"), an Israeli corporation formed on August 28, 2001, of which we own a 55% equity interest. We are manufacturers and distributors of electronic components and products relating to power supplies, converters and related power conversion products, automatic test equipment (ATE), simulators and various military and airborne systems. Where the context requires, references to "we" or "us" throughout this document include reference to Enertec Electronics and Enertec Systems.

Our revenues are comprised of two main sources, the commercial and the military markets. In the military market we, design, develop and manufacture test systems, airborne, shipborne, land electronic equipment and other various military systems, for military manufacturers in accordance with their specifications. Most of this military business is carried out by the majority owned subsidiary Enertec Systems 2001 Ltd. In the commercial market we market and distribute test systems, power supplies and other electronic components manufactured in-house, and by other manufacturers who engage us to distribute their products. This activity is carried out primarily by Enertec Electronics, a wholly owned subsidiary. We have entered into representative and distribution agreements with seven such manufacturers, four of which have been reduced to written contracts. Enertec Electronics owns 100% of Enertec Management which in turn owns 55% of Enertec Systems 2001 Ltd., consequently the financial results of Enertec Systems 2001 Ltd. are consolidated up to Lapis Technologies Inc, through its wholly owned subsidiary Enertec Electronics.

OUR SUBSIDIARIES

In April 2002, we acquired all of the outstanding capital stock of Enertec Electronics, making it our wholly owned subsidiary. In this transaction, we acquired 99 ordinary shares of Enertec Electronics from Harry Mund, our President and Chief Executive Officer, in exchange for 4,750,000 shares of our common stock. The common stock issued to Mr. Mund represented 86.6% of our outstanding common stock after the transaction.

Enertec Management Limited (f/k/a Elcomtech Ltd.), a private Israeli company, is a wholly owned subsidiary of Enertec Electronics

Enertec Systems, a private Israeli company, is owned by Enertec Management Limited ("Enertec Management") (55%), Harry Mund (27%), our President and Chief Executive Officer, and Zvi Avni (18%), a former employee of Enertec Electronics Limited. The President and Chief Executive Officer of Enertec Systems is Harry Mund, and the Chief Operating Officer is Zvi Avni. Enertec Systems commenced operations on January 1, 2002.

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ENERTEC ELECTRONICS

Enertec Electronics is responsible for:

- The marketing and distribution of power supplies and other related power products manufactured by us and third-party firms that engage us to distribute their products; and

- The marketing and distribution of power supply testing equipment to our military and commercial customers.

Our customers have products that require power supplies. We are contacted by them with their specifications, and based on that data, we provide a standard, or if necessary, a semi-custom or custom, power supply solution. Our technical sales staff in Israel has a comprehensive understanding of our customers' product base, which allows us to provide the most efficient power supply solution to our customers. Our professional marketing and sales teams include engineers who provide support to customers from the early stages of product definition and first sampling, through the production stages and up to after-sales support. Examples of products that require power supplies are computers, modems, printers, faxes, telephones, transmitter/receivers for commercial and military communications, radar, airborne infra-red cameras, surveillance equipment, telecom network routers, video-conference routers, cellular telephone transmitters/receivers, television on-routers, internet-routers, medical MRI scanners, x-ray equipment, robots, drivers for electric motors, and industrial control systems.

We have also entered into representative contracts or distribution contracts with various international power supply manufacturers, these manufacturers granted us exclusive rights to sell their products in Israel. We solicit sales within Israel and upon receipt of purchase orders, we contact the supply manufacturers to fulfill such orders. We thereafter apply a mark-up to the products. We have exclusive rights in that the supply manufacturers do not promote their products directly within Israel. Further, if a customer contacts the supply manufacturers directly, such manufacturer will redirect the customer to us, or advise us to contact the customer regarding the order.

We are also a major local Israeli distributor of power testing equipment. This includes DC and AC electronic loads, that is, equipment used for the testing of power supplies which utilize alternate current (AC) and direct current (DC) technology. We also provide various measurement devices that measure factors such as electrical values, voltage, current, power, resistance, and simulators - that is, pieces of equipment used during the testing process to simulate different input/output conditions while monitoring the responses of the unit to determine whether the equipment is functioning correctly. Additionally, we provide complete ATE Systems (automatic test systems), which are complete systems typically built to automatically test electronic systems in their entirety. Examples of such systems are power supplies, computers, modems, telecom systems, electronic motors, communication equipment, and various military systems used on aircrafts, ships or tanks.

Although Enertec Electronics is delivering its final customized systems within the military industry, it is an area in which Enertec Electronics is no longer generating new revenues and has specialized its focus almost exclusively on power supplies and power supply testing equipment.

ENERTEC SYSTEMS 2001

Enertec Systems 2001 ltd. is responsible for designing, developing and manufacturing test systems for electronics manufacturers in the military industry based on their specifications. Our systems are highly sophisticated and we have achieved recognition as a major local manufacturer of ATE Systems. We also design and manufacture various airborne military systems - for example, electronic systems used in aircrafts such as a power supply, mission computer or a control system for a motor or a pump, a radio transceiver, an altitude measuring device, and sub-assemblies, which are parts of a system developed with a customer's specifications.

Through our subsidiaries we cover distinct areas of power supplies and ATE's. Enertec Electronics focuses on manufacturing and distributing standard and customized power supplies in the non-military arena, as well as the distribution of standard military related power supplies. In addition to this, we have increased our equity position in Enertec Systems, an entity in which we currently own a 55% equity interest. Enertec Systems meets the scrupulous customer standards who demand compliance with the stringent security clearance standards. Enertec Systems exclusively manufactures customized military related products. In 2004 we upgraded our quality control system from ISO9001 to the new ISO9001:2000. This is a much higher standard of product design and manufacture. Only a few companies in our arena accomplished this.

The International Organization of Standardization (ISO) designated ISO9001:2000 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. ISO9001:2000 is the international standard for quality assurance and quality design. This is the most common worldwide standard and is implemented across all kinds of organizations, including manufacturers, schools and shops. Most customers in our industry insist on doing business with companies that are least ISO9002:2000 approved, a standard that is less demanding than IS9001:2000. The ISO9002:2000 standard is related mainly to the quality assurance of the manufacturing process, while the higher ISO9001:2000 standard includes both the quality assurance of the manufacturing process component as well as the quality of the design. The ISO9001:2000 standard is important to customers who are placing orders for custom made products.

The ISO9001:2000 quality assurance model is made up of a combination of quality system requirements. The key requirements are that an organization should:

- Determine the needs and expectations of customers and other interested parties;
- Establish policies, objectives and a work environment necessary to motivate the organization to satisfy these needs;
- Design, resource and manage a system of interconnected processes necessary to implement the policy and attain the objectives;
- Measure and analyze the adequacy, efficiency and effectiveness of each process in fulfilling its purpose and objectives; and
- Pursue the continual improvement of the system from an objective evaluation of its performance.

A typical process for designing, planning and implementing a quality system is likely to involve:

- 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

ENERTEC SYSTEMS 2001

During 2004, Enertec Systems 2001, began focusing exclusively on the military arena, and entered into numerous new fields of military technology in addition to our "classic" ATE field of expertise.

We have successfully marketed a new line of ruggedized Command and Control mobile stations of modular architecture, allowing adaptation/customization to various applications for which we have already received and delivered an order. This was followed in December for several more units for delivery in the first half of 2005, and we expect this order to be followed by a much larger order to be delivered over the next few years.

We also entered a new field of ruggedized mission computers for combat vehicles. This new line has been well received and we have already received a first order for three prototypes from the I.A.I. (Israeli Aircraft Industry) who intends to replace their computers which were previously manufactured in-house and have been active in the field for many years. The delivery of the prototypes is expected to be in the second quarter of 2005. If the qualification test is well received, we should get a significant follow on order.

We introduced a new line of military grade Power Distribution Units for use in airborne, shipborne and ground applications. We have already received an order for 113 Units, to be delivered over the next 4 years.

We introduced a new test system for the helicopter's flight computer. The first customer was pleased with our presentation and during the last quarter of 2004 placed an order for the first unit which we hope to be followed with more going forward.

We are trying to capitalize on our technical expertise in the testing of missiles and have introduced a comprehensive test system to test and simulate all stages of a ground-to-air anti-missile missile. We have also introduced a new test system for air-to-air missiles.

We have also designed an innovative, very small airborne multiple-output power supply that has been specially designed for infrared payloads. It uses a proprietary technology that was developed in-house to power a planar switching transformer which enables further miniaturization and a higher output power to size ratio. This new line has been well received by our customers, and the first samples have already passed the stringent military screening tests.

ENERTEC ELECTRONICS

We started distributing an external power supply for a Network Security Product. The first order of 1000 units was received during the third quarter of 2004.

We successfully completed the UL safety approvals for a new custom-made power supply. It is implemented in a series of modems for fast network access of data and voice over the IP network for which we have already received the first order of 1000 units with an expected delivery in the first quarter of 2005.

We delivered the first samples of DC/DC converters for military CDU (Command Display Units) in the fourth quarter of 2004. These samples were followed with an order for 1500 units with an expected delivery during 2005.

We entered into a new arena of customized power supplies for fast data networking systems. We customized compact PCI power supplies and during 2004 received orders for 200 units. We also designed a customized small- size multiple-output power supply this product generated an order for 290 units which were delivered in 2004.

We customized a redundant power supply for IP Storage Networking which generated an order for 200 units.

MARKETING STRATEGIES

We market our products to a diverse group of manufacturers. Our products serve the various needs of local Israeli manufacturers of electronic systems in the following fields:

- Telecommunications;
- Medical;
- Military; and
- Industrial.

We currently sell only to Israeli companies that, in turn, incorporate our components into their products for resale to the global markets. However going forward we anticipate creating some kind of platform to market Enertec Systems 2001 products to U.S. Companies as well as creating a manufacturing base within the States so as to benefit from US government dollars directed to Israel's military aid with the condition of being spent on U.S manufactured products. Currently we advertise in all the local Israeli technical magazines and participate in electronic shows three to five times a year. A substantial

part of the business is from "captive" customers who have been working with us for many years. Many companies have engaged us from their inception, and have implemented our custom designed solutions. Many of our customers use us exclusively, and have become dependent on us for technical services, products and support, and consider us to be their own "power supply department" and "ATE systems department".

Word-of-mouth also drives our business. Our reputation is backed by many years of providing quality products and services. Our marketing strategy has been based on our brand name and reputation, which has grown substantially over the last eighteen years, including eight years prior to the formation of Enertec Electronics, when Mr. Mund conducted business under the name "Enertec International." Interest in our business has also been generated at seminars and exhibitions.

Over the next 24 months, we plan to be more aggressive in our marketing efforts by introducing an array of new advertisements, a web site and new catalogs. Part of our success within Enertec Systems has been to anticipate the needs of our clients and to start working on products that we know they will be needing thus gaining an edge on our competition in our time to market. Furthermore by having our ear close to the ground, we have been able to identify those of our clients and potential clients that look poised to get the big orders and focus our attention on gaining a foothold within that client. When successful this strategy enables us to benefit from the large order flow that they 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 the perfect position to offer to them, especially if they are inundated with business we are able to step in and ease the burden of some of the non-core components.

Unlike Enertec Systems 2001 whose competitive edge lies much more with the sophistication and complex nature of the products, Enertec Electronics maintains its competitive advantage primarily through its range of products and their price.

By continuously diversifying into new and more complex products, Enertec Systems 2001 has been able to set itself apart from its competition.

MARKET CONDITIONS

Worldwide recession in high-tech, telecommunications, and Internet related products has affected the Electronics Division's power supplies sales. The overall market experienced a recession during 2003 and the first quarter of 2004. During 2004 our power supply sales remained steady at the 2003 level. However starting in the second half of 2004 this market started to improve and we received more new orders resulting in a significantly increased backlog of $1,226,000. During the last quarter of 2003 the market for military/customized systems was reduced due to end-of-year 2003 budget cuts by the Israeli Ministry of Defense. However during the last two quarters of 2004 the local military market improved significantly resulting in many new orders received which contributed to a large backlog of military products of about $1,913,000.

Additionally, manufacturers that sell end products such as missiles, aircrafts or computers, also provide a support system (e.g., an ATE) to the end-user. The end-user uses this support system for maintenance of the end product. Historically, support systems were made by manufacturers selling the end products. Recently, however, manufacturers have been focusing their resources on the end products rather than on support systems. This has opened up a market for us to develop these systems.

The local Israeli market for ATE and simulators is estimated at $100 to $200 million annually. We have about 4% of this market, approximately the same level of market penetration as our competitors. This market is largely controlled by big local defense manufacturers. However, there has been a noticeable trend by these and other defense manufacturers to outsource test systems to specialized firms so that large manufacturers can focus their resources on designing their core products.

The local market for outsourced custom designed military systems is above $ 500 million. We have just begun to penetrate parts of this market with products in the field of avionic systems, ruggedized control systems to name but a few.

Our stability is largely due to our diversified client base. We service clients in the telecommunications, industrial control, medical and the military core business sectors. In addition to this our sales force pays a significant amount of attention to our customer relationships, providing more opportunities to gain our foothold into a contract than our competition does. Furthermore we offer more customized power supplies, which, we believe, makes it more difficult for our competitors to bid successfully on the same projects or replace our product down the road in production or for follow on orders.

A key element of our growth potential is our ability to enhance our sales and marketing team. We will need to expand our sales and marketing team significantly over the next several years to achieve our sales targets. We will face significant challenges and risks in building and managing our sales and marketing team, including managing geographically dispersed sales efforts and adequately training our sales people in the use and benefits of our products.

CUSTOMERS

Our customers are mostly local Israeli manufacturers of electronic systems from different segments of the electronics industry, representing such fields as military, commercial, medical, and telecommunications industries. Due to the high level of diversification of our customers, we are not dependent on any one specific market segment; so overall performance is less affected by fluctuation in the markets. Until 2003 IAI (Israel Aircraft Industries) was our major customer representing approx 38% of our sales. During 2004 we made effort to increase our sales in other fields of technologies, for example avionic equipment and combat stations. This resulted in an increase in our sales to Rafael to approx 25% of our total sales in 2004 as compared to 10% in 2003. In 2004 Israeli Aircraft Industry (IAI) accounted for approximately only 18% of our sales.

BACKLOG

As of December 31 2004 we had a backlog of written firm orders for our products and services in the amount of approximately $3,139,000 as compared to a backlog of approximately $1,137,000 as of December 31, 2003. The increase of 176% in the backlog as of Dec 2004 compared to Dec 2003 is due to the fact that during the second half of 2004, there was a significant increase in orders for military systems. The delivery lead-time for military systems is six to twelve months, which gives rise to a significant backlog.

The orders included in the December 31, 2004 backlog figure are as follows:

Enertec Systems 2001

$413,000 representing test systems for IAI missiles and avionic systems
$162,000 representing airborne power supplies and test systems for infra-red payloads
$1,273,000 representing airborne power supplies, flight computers and test systems for avionics and military systems.
$65,000 representing data link test equipment.

Enertec Electronics

$1,226,000
This figure includes a variety of orders for commercial/telecom/medical /industrial power supplies as well as several orders for standard test equipment for both the commercial and military industry.

COMPETITION

ENERTEC ELECTRONICS

We face intense competition within Enertec Electronics from the existing manufacturers and distributors of electronic components and products. Presently, several competing companies that have greater resources than we do, such as financial, operational, sales, marketing, and research and development resources, are actively engaged in the manufacture and distribution of electronic components and products. Our main competitors include; Advise Electronics Ltd., Appletec Ltd., Migvan Technologies Ltd., Boran Technologies Ltd., Telkoor Power Supplies Ltd., and Horizon Electronics Ltd.

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However, we have been able to compete effectively with these companies for the following reasons:

- o Our power supplies are high quality, low cost, and are backed by a large number of experienced technicians - unique combination in this industry. Most of our sales people are engineers, who have an understanding of our customer's requirements, allowing us to provide cost-effective solutions.
- o We have comprehensive experience in test systems, which enables our sales people to propose the most cost-effective testing solutions, incorporating the highest grade of software and the most sophisticated hardware.
- o We maintain a strong technical team that provides solutions to our customers' needs within our target niche.
- o Our products are sold in diversified activity fields, namely,

commercial, industrial, military, medical, systems and components.

Our products have been incorporated into many high volume production projects with long-term purchasing agreements of up to two years. That is, our customers' products are sold in high volume intervals, and to ensure delivery in a timely fashion, our customers place long-term orders with us to cover their production needs over a period of several months to up to a year and even longer in some cases. Additionally, we mass-produce power supplies for a client's entry control system and are the major manufacturer of power supplies for a Video On Demand provider. Due to the significant approval process these products must pass to get to the market, it is not cost effective to replace our component with a cheaper competitor's product because they would have to resubmit the product for re-approval with the new component inside.

ENERTEC SYSTEMS 2001

Our chief source of competition for Enertec Systems 2001 are our clients themselves. Heretofore most of our clients have done their own systems testing and core component manufacturing in house. But as their volume of sales start increasing it is easier for us to provide an outsourcing capability for them. Furthermore as we continue to prove our expertise and our clients allow us to create increasingly complex products for them, we have started to build their trust and are overtaking a lot of the functions that previously they would have produced in house. Outside competitors that we face are:

Chaban Electronics Ltd
Symcotech Ltd
Rada Electronic Industries ltd

SUPPLIES AND SUPPLIERS

Our suppliers are diversified and we are not dependent upon a limited number of suppliers for essential raw materials, energy or other items. The manufacturers that supply to us are all established companies with facilities and products in compliance with all relevant international standards. However, while we are not dependent on any one supplier, disruptions in normal business arrangements by the loss of one or a few suppliers could cause possible short-term losses. These 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, in relation to the shortage of components, 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, 2004, Enertec Electronics Limited had 15 employees and Enertec Systems 2001 Limited had 47 employees. All technical employees must sign a two-year confidentiality agreement and a two-year non-compete agreement, which prohibits our employees, if they cease working for us, from directly competing with us or working for our competitors. However, Israeli courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer, such as the secrecy of a company's confidential commercial information or its intellectual property. We may not be able to demonstrate that harm would be caused to us, and therefore, may be unable to prevent our competitors from hiring and benefiting from the expertise of our former employees. None of our employees are subject to a collective bargaining agreement. We do not employ any supplemental benefits or incentive arrangements for our officers or employees. All of our employees are full-time. Management considers its employee relations to be good.

RESEARCH AND DEVELOPMENT EXPENDITURES

Research and Development costs totaled approximately $110,000 and $100,000 for the twelve months ended December 31, 2004 and 2003 respectively which equates to approximately 1.8% and 1.5% of revenues respectively for both periods. These expenditures have adequately satisfied our research and development requirements. The reason for the relatively low budget dedicated to R&D as a percentage of our revenues is that our clients drive our R and D with projects that they want us to develop, consequently these costs are passed on as cost of sales to our clients who request the new product development.

SEASONAL ASPECTS OF OUR BUSINESS

The sales of military products experience seasonal variations this is due to the fact that the Israeli Ministry of Defense frequently delays the release of budgets 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 1st quarter 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 results.

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.

GOVERNMENT REGULATION

Every electronic product 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. Every 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. The power supply system has the most stringent approval standards.

ITEM 2. DESCRIPTION OF PROPERTY.

We currently maintain plants in both Haifa and Carmiel. We have no plans to secure more space, as we believe both locations are suitable for our needs.

Our Haifa plant is 400 square meters and includes a production hall and management offices. We lease this property for $16,800 per annum from Mund Holding Limited, an entity wholly owned by our President and Chief Executive Officer, Harry Mund. We entered into this lease in January 2001. The Haifa plant houses the headquarters and accounting offices, the imports department, sales and administration employees, application engineers, and a service laboratory. This plant is suitable for our present and near future needs. There is enough space to accommodate an additional two to four sales engineers, if needed. This space is also used to sell standard power supplies products.

Our Carmiel plant is 800 square meters and also includes a production hall, with a research and development and engineering facility for our Systems Division. The Carmiel property is leased at $38,400 per annum. We use the Carmiel plant for manufacturing. It houses engineers, software programmers, electronic hardware designers, mechanical designers, and electronic and mechanical assembly personnel. It consists of office rooms for one to three people, and contains one room for electronics assembly, one for mechanical assembly, and two for final testing of finished products. The Systems Division manufactures its customized products in this facility, and accordingly, it is not a plant for high volume production. It is located in the Carmiel industrial area, and is in close proximity to many of our Systems Division clients. Every engineer has individual workstations, which contain computers that are inter-connected by our own local network for fast communication. The plant has been updated to satisfy all our present and near future needs. In this facility, there is space for five additional offices, which would accommodate approximately 15 more people, and the existing assembly rooms could accommodate three to eight additional workers.

ITEM 3. LEGAL PROCEEDINGS.

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

On April 16, 2002, Orckit Communications brought an action in the Tel Aviv District Court against Gaia Converter, a French company and Alcyon Production Systems, also a French company and a subcontractor of Gaia Converter, seeking $1,627,966, alleging that the DC converters supplied to it by Gaia Converter were defective and caused Orckit to replace the converters at a substantial financial expense. Enertec Electronics was joined in the action as a local Israeli distributor of the Gaia Converter products. Gaia Converter has advised us that the converters in issue were free from any and all defects and were in good working order and that it was the faulty performance of Orckit's product into which the converters were incorporated that caused them to fail at a greater rate than anticipated by Orckit. Enertec Electronics filed a response to this claim that there is no cause of action against it, as among other things, Enertec Electronics is merely the local Israeli sales representative of Gaia Converter and did not make any implied or express representations or warranties to Orckit regarding the suitability of the converters or otherwise, nor was Enertec Electronics required to do so by law. Technical specifications required by Orckit for the converters were determined and communicated directly by Orckit to Gaia Converter and all other communications regarding the converters were directly between Orckit and Gaia Converter. Moreover, Orckit conducted a qualification test of the converters and confirmed to Gaia Converter that the converters complied with their requirements subsequent to such testing. Neither Gaia Converter nor Alcyon Production Systems have filed a response to this action, and consequently Orkit Communications requested and obtained default judgments from the Tel Aviv District Court against both Gaia Converter and Alcyon Production Systems. Enertec Electronics is defending and is continuing to defend this action vigorously and we do not believe that it will have a material adverse impact on our business. Orkit has filed affidavits setting out the evidence supporting their allegations and Enertec will file answering affidavits in response.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

MARKET INFORMATION

Our common stock began quotation on the OTC Bulletin Board on June 1, 2004 under the symbol LPST.OB. For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

	Fiscal 2005		Fiscal 2004	
Calendar Quarter	High	Low	High	Low
First Quarter	$1.75	$1.75	N/A	N/A
Second Quarter	N/A	N/A	$1.20	$1.01
Third Quarter	N/A	N/A	$1.75	$1.01
Fourth Quarter	N/A	N/A	$2.00	$1.01

HOLDERS

As of March 25, 2005, we had 5,483,000 shares of common stock outstanding and such shares were held by approximately 36 stockholders of record.

DIVIDENDS

We have not declared any dividends to date. We have no present intention of paying any cash dividends on our common stock in the foreseeable future, as we intend to use earnings, if any, to generate growth. The payment by us 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.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table shows information with respect to each equity compensation plan under which the Company's common stock is authorized for issuance as of the fiscal year ended December 31, 2004.

EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS,	NUMBER OF S REMAINING A FUTURE ISSU

	OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WARRANTS AND RIGHTS	EQUITY COMP (EXCLUDING REFLECTED I
	(a)	(b)	
EQUITY COMPENSATION PLANS APPROVED BY SECURITY HOLDERS	-0-	-0-	50
EQUITY COMPENSATION PLANS NOT APPROVED BY SECURITY HOLDERS	-0-	-0-	
TOTAL	-0-	-0-	50

2002 STOCK OPTION PLAN

We adopted, subject to stockholder approval, our 2002 Stock Option 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. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

FORWARD-LOOKING STATEMENTS

The information in this annual report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Act provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about themselves so long as they identify these statements as forward looking and provide meaningful cautionary statements identifying important factors that could cause actual results to differ from the projected results. All statements other than statements of historical fact made in this report are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations.

The following discussion and analysis should be read in conjunction with the financial statements of Lapis Technologies, Inc., included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2004, our cash balance was $124,000, as compared to $181,000 at December 31, 2003. The decrease in cash balance is mainly due to a decrease in the total bank debt. Total current assets at December 31, 2004 were $5,739,000, as compared to $5,332,000 at December 31, 2003. The increase in current assets is mainly due to the increase in work in process inventory.

Our accounts receivable at December 31, 2004 was $2,544,000, as compared to $3,083,000 at December 31, 2003. This change in accounts receivable is primarily due to a large increase of revenues from Rafael with shorter payment terms, 45-60 days as compared to 90-120 days of most of our other customers. Another reason is the lower revenue of 2004 as compared to 2003.

As of December 31, 2004 our working capital was $1,249,000, as compared to $713,000 at December 31, 2003 and an accumulated loss of $57,000. The increase in the working capital is mainly due to increase in work in process inventory and decrease in short term bank loans. Bank Leumi and Bank Hapoalim have together extended us a total available bank debt of $3,027,000 as opposed to $3,201,000 at December 31,2003. We have used this debt in a combination of ways: as short-term debt, as long-term debt and in the form of lines of credit, which we use from time to time to satisfy our temporary cash flow needs. Bank Leumi has provided us with $2,358,000 of total debt based on our pledge of $1,900,000 of our working capital and customers' receivables due from Israeli Aircraft Industry and Rafael, and $458,000 by the pledge of some of the financial assets of our president, Harry Mund. Bank Hapoalim has provided us with $669,000 of total debt based on our pledging of $500,000 of our customers' receivables due from Tadiran Spectralink Ltd. and Bigband, Zycon and Rad., and $169,000 by the pledging of some of the financial assets of Mr. Mund. Mr. Mund has personally on deposit with our banks monies in excess of $1,000,000 which he has pledged as collateral against our bank debt.

The current portion of our term loans at December 31, 2004 consisted of $163,000 compared to $202,000 at December 31, 2003. Our total short-term loan consisted of $1,926,000 of short-term loans and $163,000 of current portion of long-term debt broken down as follows:

$279,000 due January 2005,
$10,000 due Feb 2005,
$745,000 due March 2005,
$736,000 due July 2005 and
$319,000 due December 2005.

At December 31, 2004, our total bank debt was $3,027,000 as opposed to $3,201,000 at December 31, 2003. These funds were borrowed as follows: $2,089,000 which includes the current portion of long term debt, as various short term bank loans due through 2005, $236,000 of long-term debt due through September 2007 and $702,000 borrowed using our bank lines of credit. As a result, we decreased the amount borrowed for the year ended December 31, 2004 by $174,000 from $3,201,000 as of December 31, 2003. The decrease in bank debt is mainly due to a decrease in account receivables.

There are no other lines of credit available to us to refinance our short-term bank loans. Additionally, we currently do not have any other sources of financing available to us for refinancing our short-term loans. As of December 31, 2004 we are current with all of our bank debt and compliant with all the terms of our bank debt.

At December 31, 2004, and at December 31, 2003, we had receivables from Harry Mund, our Chief Executive Officer and President, in the amounts of $359,000 and $147,000 respectively. The loan to Mr. Mund was extended as a salary advance. We believe that the current payment status will not affect our future cash flow or liquidity.

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 develop and test our suite of products, increase 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 sales and marketing personnel to promote our products and the cost and timing of the expansion of our 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. 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. At the present time, we do not have definitive plans to seek additional financing.

RESULTS OF OPERATIONS

FISCAL YEAR ENDED DECEMBER 31, 2004 COMPARED TO FISCAL YEAR ENDED DECEMBER 31, 2003

For the fiscal year ended December 31, 2004 we had total revenue of $6,176,000 compared to revenue of $6,490,000 for the fiscal year ended December 31, 2003. The decrease in revenue of $314,000, or 5%, is a result of a lower number of orders for military systems received at the end of year 2003 and first half of 2004, due to 2003 end-of-year budget cuts of Israeli Ministry of Defense, which affected the sales in the first three quarters of 2004. The impact of the government cuts at the end of the year usually lasts two to three quarters since the average lead-time for military products is 6-12 months. There has also been a delay in new orders for the Arrow project since the customer has been involved preparing the August 2004 USA tests.

Gross profit totaled $2,046,000 for the fiscal year ended December 31, 2004 as compared to $1,871,000 for the fiscal year ended December 31, 2003, an increase of $175,000 or 9%. Gross profit as a percentage of sales for the fiscal year ended December 31, 2004 was 33% as compared to 29% for the fiscal year ended December 31, 2003. The increase in our gross profit was a result of an increased number of repeat orders delivered during 2004 and more orders with higher profit margins.

Total operating expenses in each of the fiscal years ended December 31, 2004 and December 31, 2003 were comprised of selling, general and administrative expenses. Operating expenses for the fiscal years ended December 31, 2004 and 2003 were $1,221,000 and $1,110,000, respectively, an increase of $111,000, or 10%. The increase in operating expenses is attributable to an increase of $40,000 in salary expenses, approximately $55,000 in cost of professional services legal and accounting associated with being a public company and $16,000 in selling expenses as a result of our effort to develop the market for our new airborne products.

Our net income was $343,000 in the fiscal year ended December 31, 2004 compared to $252,000 in the fiscal year ended December 31, 2003. This increase in net income by $91,000 or 36% was due to the increase in gross profit of $ 175,000 and the decrease of interest expenses and provisions for income taxes. The decrease in net interest expenses is due to lower interest rates and lower total bank debt.

As detailed in this annual report, our business is comprised of Enertec Electronics which derives its revenues from the commercial arena and from standard military power supplies that it sells to the military industry and a few orders that were received in 2002 and are still being fulfilled out till 2005 that are systems for the military industry. Consequently from hereon forward when we refer to commercial revenues we will be referring exclusively to Enertec Electronics commercial business and when we refer to military business we will be referring to Enertec Systems 2001 and the military part of Enertec Electronics business.

For the fiscal year ended December 31, 2004, our non-military revenue, costs of sales and gross profits were $2,403,000, $1,792,000 and $611,000 respectively, and $2,248,000, $1,200,000 and $1,048,000 respectively for the fiscal year ended December 31, 2003. Revenue increased $155,000 or 6.9% because the market for non-military goods started to recover towards the end of 2004, costs of sales increased approximately $572,000 or 47.7% because of efforts to increase our market share and penetrate new markets. Gross profit decreased $437,000 or 41.7% because of the higher cost of sales which was directly due to several orders booked at lower unit prices in order to meet customer's target prices.

For the twelve months ended December 31, 2004, revenues, costs of sales and gross profits from our military business were $3,773,000, $2,338,000 and $1,435,000 respectively, and $4,242,000, $3,419,000 and $823,000, respectively for twelve months ended December 31, 2003. Revenue decreased $469,000 or 11% because fewer orders for military systems were received due to 2003 end of year budget cuts from the Israeli Ministry of Defense, as well as a strategic decision to focus on fewer but more profitable projects. Cost of sales decreased approximately $1,081,000 or 31.6 % because an increased number of repeat orders were delivered during 2004 as well as projects with a lower cost of sales than the previous year December 2003. Gross Profit increased $612,000 or 74.4 % because we focused on a significant amount of projects with higher profit margin.

At December 31, 2004, we had three customers that accounted for approximately 62% of accounts receivable. For the years ended December 31, 2004 and 2003, approximately 43% and 61%, of our sales were to two and three customers, 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, 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, collectibility 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.

Revenue relating to service is recognized on the straight-line basis over the life of the agreement, generally one year. For the years ended December

31, 2004 and 2003 revenue relating to service contracts is less than one percent of net sales.

Research and Development Costs - Research and development costs are charged to general and administrative expense in the accompanying statement of income and consist of salaries. Research and development cost for the years ended December 31, 2004 and 2003 were approximately $110,000 and $100,000, respectively.

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, 2004 because of the relatively short maturity of the instruments. The fair value of due from stockholder is not practical to estimate without incurring excessive cost and is carried at cost at December 31, 2004. The carrying value of the long-term debt approximate fair value at December 31, 2004 based upon debt terms available for companies under similar terms.

Foreign Currency Translation - Lapis Technologies, Inc. has one wholly owned subsidiary, Enertec Electronics Limited, an Israeli corporation, and one majority owned subsidiary, Enertec Systems 2001 Ltd., 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 year. Resulting translation adjustments, if material, are recorded as a separate component of accumulated other comprehensive income or loss.

ITEM 7. FINANCIAL STATEMENTS.

All financial information required by this Item is attached hereto at the end of this report.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

On April 1, 2004, Rogoff & Company, P.C. informed us that they were resigning as our principal independent auditors because they were no longer going to do audit work for public companies. Going forward from April 1, 2004 our principal independent auditor will be Gvilli & Co. C.P.A. The decision to engage Gvilli & Co. was taken upon the unanimous approval of our Board of Directors.

During the fiscal years ended December 31, 2003 and December 31, 2002 and through April 1, 2004, (i) there were no disagreements between the Company and Rogoff & Company on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Rogoff & Company would have caused Rogoff & Company to make reference to the matter in its reports on the Company's financial statements, and (ii) Rogoff & Company's reports on the Company's financial statements did not contain an adverse opinion or disclaimer of opinion, or was modified as to uncertainty, audit scope or accounting principles. During the last two most recent fiscal years ended December 31, 2003 and December 31, 2002 and through April 1, 2004, there were no reportable events as the term described in Item 304(a)(1)(iv) of Regulation S-B.

During the recent fiscal years ended December 31, 2003 and December 31, 2002 and through April 1, 2004, we did not consult with Gvilli & Co. regarding either:

1. the application of accounting principles to any specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and neither a written report was provided to us nor oral advice was provided that Gvilli & Co. concluded was an important factor considered by us in reaching a decision as to an accounting, auditing or financial reporting issue; or

2. any matter that was either subject of disagreement or event, as defined in Item 304(a)(1)(iv)(A) of Regulation S-B and the related instruction to Item 304 of Regulation S-B, or a reportable event, as that term is explained in Item 304(a)(1)(iv)(A) of Regulation S-B.

ITEM 8A. CONTROLS AND PROCEDURES.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. There was no change in our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 8B. OTHER INFORMATION.

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

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 directors receive no compensation for their services as board members but are reimbursed for expenses incurred by them in connection with attending board meetings. All 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. There are no family relationships among any of our directors or executive officers.

NAME	AGE	POSITION
Harry Mund	57	Chairman of the Board, Chief Executive Officer, President and Secretary

Miron Markovitz	57	Director, Chief Financial Officer and Principal Accounting Officer

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.

HARRY MUND, our Chairman of the Board, Chief Executive Officer, President and Secretary since our inception, and has been the Chief Executive Officer and President of our subsidiary, Enertec Electronics Limited, since 1987. Mr. Mund is also the Chief Executive Officer and managing director of Enertec Management Limited (f/k/a Elcomtech Limited), a wholly owned subsidiary of Enertec Electronics Limited. From 1983 to 1987, Mr. Mund was the President and Chief Executive Officer of Enercon International, a marketing and sales firm of military and commercial power supplies and test equipment. Enercon International's activities were transferred to Enertec International in 1987, which subsequently became Enertec Electronics Limited in 1992. From 1975 to 1983, Mr. Mund worked for Elbit Systems as a design engineer of advanced test systems and as the head of the ATE engineering group. Mr. Mund attended Ben-Gurion University from 1970 to 1974 and earned a Bachelor of Science as an Electronic Engineer.

MIRON MARKOVITZ, a Director, our Chief Financial Officer and Principal Accounting Officer since our inception, has been the Chief Financial Officer of our subsidiary, Enertec Electronics Limited, since 1992, responsible for its accounting and financial management. He attended Haifa University from 1975 to 1978 and earned a BA in economics and accounting.

SIGNIFICANT EMPLOYEES

The following is a brief description of the business experience of each of our significant employees:

ZVI AVNI, 43, was the System Division Manager for our subsidiary, Enertec Electronics Limited, from February 1997 to January 2002. His responsibilities included the design and manufacture of automatic test systems. Mr. Avni has 18 years of experience with ATE systems for the military market and worked at Elbit Systems for 12 years as an ATE group leader. Since January 2002, Mr. Avni has worked for Enertec Systems 2001 Ltd., which is owned by Enertec Management Limited (55%), Harry Mund (27%) and Mr. Avni (18%), and continues to be responsible for the design and manufacture of the Automatic Test Systems. Mr. Avni graduated from Haifa Technion Institute of Technology in 1982 and earned a degree as a Practical Electronic Engineer.

YAAKOV OLECH, 53, has been employed by our subsidiary, Enertec Electronics Limited, since March 1991. Mr. Olech is head of our customer service electronic lab and technical support, providing after-sales customer support and repair services for products under warranty or by utilizing service contracts for repair of power supplies. He attended Radiotechnical Institute, Minsk, USSR from 1976 to 1979 and has earned a Master in Science in electronic engineering.

DR. ALEXANDER VELICHKO, 58, has 28 years of experience as leading research and development engineer and head of the research and development group at several companies. From 1981 to 1990, he was a lecturer of electronics and automation at the Engineering Institute, Karatau, Kazahtan. From 1990 to 1999, Dr. Velichko was chief engineer of the Laboratory of Electronics and Automatization Karatau, Kazakhtan, responsible for development of compact analog/digital measurement devices. Since February 2000 he has been Enertec Electronics Limited's chief scientist and head of research and development. Dr Velichko is responsible for the design of custom-made power supplies. He earned a PhD in Automatic Control at the Moscow Institute of Mining, which he attended from 1964 to 1969, and earned a Master in Science at Tomsk Institute of Electronic Engineering.

Our future success depends, in significant part, on the continued service of Mr. Mund, and certain other key executive officers, managers, and sales and technical personnel, who possess extensive expertise in various aspects of the our business, including Mr. Markovitz, Mr. Avni, Mr. Olech, and Dr. Velichko. 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 FINANCIAL EXPERT

We do not have an audit committee financial expert, as that term is defined in Item 401 of Regulation S-B. We have not been able to identify a suitable nominee to serve as an audit committee financial expert.

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. The Code of Ethics is filed as Exhibit 14.1 to our annual report on Form 10-KSB for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission on June 28, 2004. Upon request, we will provide to any person without charge a copy of our Code of Ethics. Any such request should be made to Attn: Harry Mund, 19 W. 34th Street, Suite 1008, New York, NY 10001. Our telephone number is (212) 937-3580.

ITEM 10. EXECUTIVE COMPENSATION.

The following table sets forth information concerning the annual and long-term compensation of our Chief Executive Officer, for services as executive officer for the last three fiscal years. Since we did not compensate any executive during fiscal 2004, 2003 and 2002, the information in the table includes compensation paid or awarded by Enertec Electronics Limited only. No executive officer other than Mr. Mund received total annual compensation in excess of $100,000 during fiscal 2004, 2003 and 2002.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG- COMPEN AWARDS	
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	OTHER ANNUAL COMPEN- SATION ($)	RESTRICTED STOCK AWARD(S) ($)	SEC UND OPT S
Harry Mund, Chief	2004	$261,000	-0-	-0-	-0-	
Executive Officer	2003	$216,000	-0-	-0-	-0-	

and President	2002	$145,550	-0-	-0-	-0-

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth information regarding the beneficial ownership of our common stock as of March 25, 2005. The information in this table provides the ownership information for:

- o each person known by us to be the beneficial owner of more than 5% of our common stock;
- o each of our directors;
- o each of our executive officers; and
- o 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. Enertec Electronics Limited, 27 Rechov Ha'Mapilim, Kiriat Ata, Israel, P.O. Box 497, Kiriat Motzkin 26104, Israel.

Name of Beneficial Owner	Number of Shares Beneficially Owned *	Percentage Ownership *
Harry Mund	4,750,000	86.6%
Miron Markovitz	9,000	0.2%
All Directors and Executive Officers as a Group (2 persons)	4,759,000	86.8%

* Applicable percentage ownership is based on 5,483,000 shares of common stock outstanding as of March 25, 2005, together with securities exercisable or convertible into shares of common stock within 60 days of March 25, 2005 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 March 25, 2005 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.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

On April 26, 2002, we issued 4,750,000 shares of our common stock to Harry Mund in exchange for his 99 shares of Enertec Electronics Limited, our wholly owned subsidiary, which constituted all of its issued and outstanding shares. The 4,750,000 shares were valued at a price of $.10 per share or a total of $475,000.

At December 31, 2001, our subsidiary Enertec Electronics Limited had a loan receivable from Harry Mund, our Chief Executive Officer and President, in the amount of $687,000 bearing interest at a rate of 4% per annum. This loan was extended to Mr. Mund in October 2001. At December 31, 2003 the loan receivable was $296,000. The loan was extended as a salary advance to Mr. Mund. There are no written agreements setting out repayment terms. The parties have orally agreed that the amount outstanding is due on demand.

During 2001, our subsidiary Enertec Electronics Limited sold a building to Mund Holding Limited, an entity wholly owned by Harry Mund, our Chief Executive Officer and President, for approximately $170,320. An independent appraiser and governmental body, The Capital Gains Authority, determined the sale price. The building was paid in part with cash in the amount of $93,245, and the balance by a non-interest bearing loan. This loan is unrelated to the interest bearing loan receivable from Mr. Mund discussed above. A portion of the loan was paid down on June 6, 2003 in the amount of $12,600, and again on July 1, 2003 in the amount of $10,971. There are no written agreements setting out repayment terms. The parties have orally agreed that the amount outstanding is due on demand. As of December 31, 2003, the amount of the loan outstanding was $51,000.

Enertec Electronics rents the building's office and manufacturing space from Mund Holding Limited for $16,800 annually for twenty-four months ending December 31, 2003. We have exercised our option to lease the building for an additional twenty-four months ending December 31, 2005 for approximately $18,000 annually.

On December 31, 2000, Enertec Management Limited (f/k/a Elcomtech Limited), a wholly-owned subsidiary of Enertec Electronics Limited, and of which Harry Mund is the Chief Executive Officer and managing director, loaned an aggregate amount of $23,000 to Enertec Electronics Limited at an interest rate of 4% per annum due December 31, 2002. This loan was repaid on December 31, 2002.

Enertec Systems 2001 Ltd. ("Enertec Systems"), an Israeli company, is owned by Enertec Management Limited (55%) ("Enertec Management"), Harry Mund (27%) and Zvi Avni (18%), an employee of Enertec Systems. Enertec Systems commenced operations on January 1, 2002. Enertec Management initially acquired 25% of Enertec Systems from Harry Mund on January 1, 2002. This 25% represented founding equity and was acquired by Enertec Management for 250 NIS. On December 31, 2002, Enertec Management increased its securities position to 55% of Systems' outstanding stock by purchasing additional shares from Zvi Avni for $71,000. A total of 300 shares of Systems' outstanding stock were acquired from Mr. Avni for $236.66 per share. The purchase price was paid by Enertec Electronics through Enertec Management. The source of the funds was Enertec Electronics' cash from operations. No liabilities were assumed as a result of the purchases.

ITEM 13. EXHIBITS.

EXHIBIT NUMBER	DESCRIPTION
3.1	Certificate of Incorporation of Enertec Electronics, Inc. filed January 31, 2002 (Incorporated by reference to our registration statement on Form SB-2 (File No. 333-100979), filed with the Securities and Exchange Commission on November 4, 2002)
3.2	Certificate of Amendment of Enertec Electronics, Inc. filed April 23, 2002 (Incorporated by reference to our registration statement on Form SB-2 (File No. 333-100979), filed with the Securities and Exchange Commission on November 4, 2002)
3.3	Certificate of Amendment of Opal Technologies, Inc. filed October 17, 2002 (Incorporated by reference to our registration statement on Form

	SB-2 (File No. 333-100979), filed with the Securities and Exchange Commission on November 4, 2002)
3.4	By-Laws of Lapis Technologies, Inc. (Incorporated by reference to our registration statement on Form SB-2 (File No. 333-100979), filed with the Securities and Exchange Commission on November 4, 2002)
14.1	Code of Ethics (Incorporated by reference to our annual report on Form 10-KSB for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission on June 28, 2004)
21.1	List of Subsidiaries
31.1	Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, promulgated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, promulgated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, promulgated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, promulgated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

AUDIT FEES

The aggregate fees billed for professional services rendered by our principal accountants for the audit of our financial statements, for the reviews of the financial statements included in our annual report on Form 10-KSB, and for other services normally provided in connection with statutory filings were $8,250 and $10,500 for the years ended December 31, 2004 and December 31, 2003, respectively.

AUDIT-RELATED FEES

We incurred fees of $0 and $0 for the years ended December 31, 2004 and December 31, 2003, respectively, for professional services rendered by our principal accountants that are reasonably related to the performance of the audit or review of our financial statements and not included in "Audit Fees."

TAX FEES

The aggregate fees billed for professional services rendered by our principal accountants for tax compliance, tax advice, and tax planning were $1,500 and $1,500 for the years ended December 31, 2004 and December 31, 2003, respectively. The services for which such fees were paid consisted of filing our tax returns for 2003 and 2004.

ALL OTHER FEES

We did not incur any fees for other professional services rendered by our principal accountants during the years ended December 31, 2004 and December 31, 2003.

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

Not applicable

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAPIS TECHNOLOGIES, INC.

Dated: March 28, 2005 By: /s/ Harry Mund
Harry Mund
Chief Executive Officer

Dated: March 28, 2005 By: /s/ Miron Markovitz
Miron Markovitz
Chief Financial Officer and
Principal Accounting Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Harry Mund Harry Mund	Chairman of the Board	March 28, 2005
/s/ Miron Markovitz Miron Markovitz	Director	March 28, 2005

Gvilli & Co. C.P.A. (isr.)

INDEPENDENT AUDITORS' REPORT

To the Stockholders' and the Board of Directors
of Lapis Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Lapis

Technologies, Inc. and Subsidiaries (the "Company") at December 31, 2004, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial 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 the Lapis Technologies, Inc. and Subsidiaries at December 31, 2004, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Gvilli and Co.
Gvilli & Co.
March 17, 2005
Casarea, Israel

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INDEPENDENT AUDITORS' REPORT

To the Stockholders' and the Board of Directors
of Lapis Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Lapis Technologies, Inc. and Subsidiaries (the "Company") at December 31, 2003, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial 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 condition of the Lapis

Technologies, Inc. and subsidiaries at December 31, 2003, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Gvilli & Co.
June 25, 2004
Casarca, Israel

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In Thousands, Except Share Amounts)

ASSETS

	December 31, 2004
Current Assets:	
Cash and cash equivalents	$ 124
Accounts receivable	2,544
Inventories	2,274
Prepaid expenses and other current assets	438
Due from stockholder	359
Total Current Assets	5,739
Property and equipment, net	414
Deferred income taxes	20
	$ 6,173
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Bank line of credit	$ 702
Short term bank loans	1,926
Current portion of term loans	163
Accounts payable and accrued expenses	1,520
Income taxes payable	179
Total Current Liabilities	4,490
Term loans, net of current portion	236
Severance payable	59
	4,785
Commitments and contingencies	
Minority interest	372
Stockholders' Equity:	

Preferred stock; $.001 par value, 5,000,000 shares authorized, none issued	
- Common stock; $.001 par value, 100,000,000 shares authorized, 5,483,000 shares issued and outstanding	5
Additional paid-in capital	78
Accumulated other comprehensive loss	(57)
Retained Earnings	990
Total Stockholders' Equity	1,016
	$ 6,173

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

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Earnings Per Share and Share Amounts)

	Years Ended December 31,	
	2004	2003
Sales	$ 6,176	$ 6,490
Cost of sales	4,130	4,619
Gross profit	2,046	1,871
Operating Expenses:		
Selling expenses	56	40
General and administrative	1,165	1,070
Total operating expenses	1,221	1,110
Income from operations	825	761
Other Income (Expense):		
Interest expense, net	(238)	(327)
Other income	8	--
Foregiveness of debt	--	15
Total other income (expense)	(230)	(312)
Income before provision for income taxes and minority interest	595	449
Provision for income taxes	61	120
Minority interest	(191)	(77)
Net income	$ 343	$ 252
Basic net loss per share	$ 0.06	$ 0.05
Basic weighted average common shares outstanding	5,483,000	5,483,000

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

LAPIS TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INC
YEAR ENDED DECEMBER 31, 2003 AND 2004
(In Thousands, Except Share Amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retai Earni
Balance, January 1, 2003	5,483,000	$ 5	$ 78	$ (104)	$
Foreign currency translation adjustment	--	--	--	41	
Net income	--	--	--	--	
Balance, December 31, 2003	5,483,000	5	78	(63)	
Foreign currency translation adjustment	--			6	
Net income	--				
Balance, December 31, 2004	5,483,000	$ 5	$ 78	$ (57)	$

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

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

	Years Ended December 31, 2004	2003
Cash flows from operating activities:		
Net income	$ 343	$ 252
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	146	137
Minority interest	215	77
Foregiveness of debt	--	(16)

Gain on sale of property and equipment	(8)	--
Deferred income tax		(4)
Change in operating assets and liabilities:		
Accounts receivable	539	(910)
Inventories	(616)	266
Prepaid expenses and other current assets	(203)	86
Accounts payable and accrued expenses	(184)	(98)
Income taxes payable	65	52
Customer deposits	--	(212)
Severance payable	--	(36)
Net cash used in operating activities	297	(406)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	19	--
Purchase of property and equipment	(11)	(213)
Decrease in due from stockholder	(139)	121
Decrease in due from affiliates	(24)	57
Net cash (used in) provided by investing activities	(155)	(35)
Cash flows from financing activities:		
Increase (decrease) in bank line of credit, net	(254)	(495)
Proceeds from long term debt	3,682	5,180
Repayment of long-term debt	(3,608)	(4,395)
Net cash provided by financing activities	(180)	290
Effects of exchange rates on cash	(19)	19
Increase (decrease) in cash	(57)	(132)
Cash, beginning of period	181	313
Cash, end of period	$ 124	$ 181

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

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

	Years Ended December 31, 2004	2003
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 238	$ 327
Income taxes	$ 40	$ 172
Supplemental disclosure of non-cash financing activities:		

Common stock issued for services	$ --	$ 50
	=======	=======

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

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(In Thousands, Except Share and Per Share Amounts)

NOTE 1 - DESCRIPTION OF BUSINESS AND ACQUISITION

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") and its majority owned Israeli subsidiary Enertec Systems 2001 Ltd. ("Systems"). Enertec is engaged in the manufacturing, distribution and marketing of electronic components and products relating to power supplies, converters and related power conversion products, automatic test equipment, simulators and various military and airborne systems, within the State of Israel.

On January 1, 2002 Enertec assisted in the organization of Systems in exchange for 25% of the common stock of Systems. This investment was accounted for under the equity method. Systems is engaged in the manufacturing of electronic components primarily for military use. On December 31, 2002 Enertec increased its common stock ownership interest in Systems to 55% for $71, which was included in accounts payable and accrued expenses in the accompanying consolidated balance sheet at December 31, 2002. This amount was paid during January 2003. Due to the Company's increased ownership of Systems at December 31, 2002 the Systems balance sheet has been consolidated at December 31, 2002 and System's statement of income is being consolidated beginning in 2003.

NOTE 2 - BASIS OF PRESENTATION

The accompanying consolidated financial statements present the results of operations of the Company for the years ended December 31, 2004 and 2003 and their wholly owned subsidiary Enertec Electronics Ltd. and their ownership interest in Enertec Systems 2001 Ltd. All material intercompany accounts and transactions have been eliminated in consolidation.

NOTE 3 - SUMMARY OF SIGNIFICANT 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.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(In Thousands, Except Share and Per Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and Cash Equivalents

For the purpose of the statement of cash flows 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.

Allowance for Doubtful Accounts

The Company estimates uncollectibility of accounts receivable by analyzing historical bad debts, customer concentrations, customer credit worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. At December 31, 2004 the Company has not recorded an allowance for doubtful accounts.

Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market.

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 relate 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

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(In Thousands, Except Share and Per Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Income Taxes

The Company uses the liability method of accounting for income taxes as required by Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when it is determined that it is more likely than not that the deferred tax assets will not be realized.

Warranty Reserves

The Company includes a one-year warranty on all products sold. 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, 2004.

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.

Revenue relating to service is recognized on the straight-line basis over the life of the agreement, generally one year. For the years ended December 31, 2004 and 2003 revenue relating to service contracts is less than one percent of net sales.

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."

Stock Based Compensation

Effective January 1, 2003 the Company adopted the fair method value alternative of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." Under the fair value based method, 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 and the expected dividends on it, and the risk-free interest rate over the expected life of the option. For the years ended December 31, 2004 and 2003 the Company did not issued any stock options.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(In Thousands, Except Share and Per Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Research and Development Costs

Research and development costs are charged to general and administrative expense in the accompanying statement of income and consist of salaries. Research and development cost for the years ended December 31, 2004 and 2003 were approximately $110 and $100, respectively.

Earnings per Share

The Company presents basic earnings per share and, if appropriate, diluted earnings per share in accordance with the provisions of SFAS No. 128 "Earnings per Share" ("SFAS 128").

Under SFAS 128 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. Common stock equivalents would arise from the granting of stock options. For the years ended December 31, 2004 and 2003 the Company did not grant any stock options. Diluted earnings per share is not included as it is the same as basic for all periods shown.

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, 2004.

Minority Interest

Minority interest represents the minority stockholders' proportionate share of the equity of the Company's subsidiary at December 31, 2004. The minority interest is adjusted for the minority's share of the earnings or loss of Systems.

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, 2004 because of the relatively short maturity of the instruments. The fair value of due from stockholder is not practical to estimate without incurring excessive cost and is carried at cost at December 31, 2004. The carrying value of the long-term debt approximate fair value at December 31, 2004 based upon debt terms available for companies under similar terms.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(In Thousands, Except Share and Per Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income for the year and foreign currency translation adjustments.

Foreign Currency Translation

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 year. Resulting translation adjustments, if material, are recorded as a separate component of accumulated other comprehensive income or loss.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain reclassifications have been made to the prior year's financial statements in order to conform to the current year presentation.

New Accounting Pronouncements

During November 2002, the FASB issued EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). EITF 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF 00-21 provides guidance with respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting arrangement. The provisions of EITF 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 has not had a material effect on the Company's financial position or results of operations.

During November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34" ("FIN 45"). FIN 45 requires the recognition of an initial liability for the fair value of an obligation assumed by issuing a guarantee. The provision for the initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 has not had a material affect on the Company's financial position or results of operations.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

During January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim periods beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company does not have variable interest entities so the adoption of this statement will have no effect on the Company's financial position or results of operations.

During April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). This statement amends SFAS 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities with similar characteristics entered into or modified after June 30, 2003 to be accounted to be accounted for on a comparable basis. The Company does not have any derivative instruments or hedging activities so the adoption of this statement will have no effect on the Company's financial position or results of operations.

During May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes standards on the classification and measurement of financial instruments with characteristics of both liabilities and equity. SFAS 150 will become effective for financial instruments entered into or modified after May 31, 2003. The adoption of SFAS 150 has not had a material effect on the Company's financial position or results of operations.

During December 2003 the FASB issued SFAS No. 132 (revised) "Employers' Disclosures about Pensions and Other Post Retirement Benefits," that improves the financial statement disclosures for defined benefit plans. The revision changes the existing disclosure requirements for pensions by requiring company's to provide more details about their plan assets, benefit obligations, cash flows, benefit costs and other relevant information. The Company does not have a defined benefit pension plan so the adoption of this statement will have no effect on the Company's financial position or results of operations.

NOTE 4 - INVENTORIES

Inventories consist of the following at December 31, 2004:

Raw materials	$ 671
Work in process	1,046
Finished goods	557
	$ 2.274

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(In Thousands, Except Share and Per Share Amounts)

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2004:

Leasehold improvements	$ 96
Machinery and equipment	6
Furniture and fixtures	172
Transportation equipment	245
Computer equipment	322
	841
Less accumulated depreciation and amortization	(427)
	$ 414

NOTE 6 - INCOME TAXES

The provision for income taxes consists of the following for the years ended December 31:

	2004	2003
Current:		
Foreign	$ 60	$ 124
Deferred:		
Foreign	1	(4)
	$ 61	$ 120

At December 31, 2004, the Company has a net operating loss carryforward of approximately $70, which may be utilized to offset future taxable income for United States Federal tax purposes. This net operating loss carryforward begins to expire in 2022. The only timing difference which creates a deferred tax asset is the net operating loss carryforward. This net operating loss carryforward creates a deferred tax asset of approximately $10. Since it is more likely than not that the Company will not realize a benefit from these net operating loss carryforwards a 100% valuation allowance has been recorded to reduce the deferred tax asset to its net realizable value.

Deferred tax assets are classified as current or non-current, according to the classification of the related asset or liability for financial reporting. At December 31, 2004 the Company's wholly owned Israeli subsidiary has a deferred tax asset of approximately $20, due to timing differences relating to severance payable. The Israeli subsidiary has not recorded a valuation allowance as it is more likely than not that the timing differences will be utilized.

The following is a summary of the components of non-current deferred tax assets at December 31, 2004:

Severance payable	$ 20
Net operating loss carryforward	10
Valuation allowance	(10)
Deferred tax assets	$ 20

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004
(In Thousands, Except Share and Per Share Amounts)

NOTE 6 - INCOME TAXES - continued

Differences between the United States Federal statutory income tax rate and the effective tax rate are as follows for the years ended December 31:

	2004	2003
Federal statutory rate	34.0%	34.0%
Valuation Allowance	(34.0)	(34.0)
Effect on foreign taxes	10.3	26.7
	10.3%	26.7%

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2004:

Bank line of credit due December 31, 2004 at 6.7% per annum	$ 702

(In Thousands, Except Share and Per Share Amounts)

Short-term bank loans, payable within twelve months at rates ranging from 7% per annum and 9.5% per annum	1,926
Term loans, due between February 2005 and September 2007 at rates ranging from 7.0% per annum and 8.5% per annum	399
	3,027
Less current portion of term loans	2,791
	$ 236

The Company has pledged its accounts receivables as collateral against its long term debt, which is payable to one financial institution. In addition, the president has guaranteed personal assets, as defined in the agreement, against the Company's long term debt.

The aggregate maturities of long-term debt are as follows at December 31, 2004:

Year Ended	
2005	$ 2,089
2006	145
2007	91
	$ 2,325

NOTE 8 - 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.

NOTE 9 - STOCK OPTION PLAN

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

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

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

NOTE 10 - RELATED PARTIES

Due from Stockholder

At December 31, 2004 the majority stockholder had advances due to the Company that accrue interest at 4% per annum. These advances are repayable within the next twelve months.

NOTE 10 - RELATED PARTIES - continued

Due from Affiliate

During 2001 the Company entered into a sale-leaseback transaction with an entity owned by the majority stockholder of the Company. The Company sold a building for approximately $170 and received approximately $113 in cash and a note receivable for $57, which was paid in full during the year ended December 31, 2003. No gain or loss was recorded on this transaction, as the book value of the building equaled the fair market value. The Company has agreed to exercise its option to rent this property through December 31, 2005 at approximately $18 annually with an option to renew the lease for an additional two years ending December 31, 2007. This lease has been classified as an operating lease.

(In Thousands, Except Share and Per Share Amounts)

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Lease commitments

The Company leases certain office and manufacturing space under two noncancellable operating leases expiring at December 31, 2005 and March 31, 2007. Rent expense, including municipal taxes and utilities associated with the leases approximated $59 and $52, respectively, for the years ended December 31, 2004 and 2003.

At December 31, 2004, total minimum rentals under noncancellable operating leases with an initial or remaining term lease term of one year or more are as follows:

Year Ending December 31:	
2005	$ 59
2006	59
2007	59
	$ 177

Legal proceedings

A Customer has brought an action in the Tel Aviv District Court for an unspecified monetary amount against one of the Company's suppliers, a subcontractor of the supplier and Enertec, alleging that the materials supplied were defective and caused the Customer to replace the materials at a substantial financial expense. Enertec filed a defense claim that there is no cause of action against them as Enertec is only the local Israeli sales representative and did not make any implied or express representation or warranty to the Customer regarding the suitability of its materials. Management believes that the chance of losing this suit is remote, intends to defend this action vigorously and does not believe that it will have a materially adverse impact on the Company's operations and liquidity.

NOTE 12 - CONCENTRATIONS

The Company had deposits with commercial financial institutions, which, at times, may exceed the FDIC insured limits of $100 in the United States. Management has placed these funds in high quality institutions in order to minimize the risk. Cash held in Israel at December 31, 2004 was $124.

At December 31, 2004 the Company had three customers that accounted for approximately 62% of accounts receivable. For the years ended December 31, 2004 and 2003 approximately 43% and 51%, respectively, of the Company's sales were to two and three customers, respectively.

NOTE 13- SEGMENT AND GEOGRAPHIC INFORMATION

Information about the Company's assets in different geographic locations at December 31, 2004 is shown below pursuant to the provisions of SFAS 131, "Disclosures About Segments of an Enterprise and Related Information."

Total assets:	
Israel	$ 6,173
United States	0
	$ 6,173