

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

-----  
 PRE-EFFECTIVE AMENDMENT NUMBER 1  
 TO  
 FORM SB-2  
 REGISTRATION STATEMENT  
 UNDER THE SECURITIES ACT OF 1933  
 -----

LAPIS TECHNOLOGIES, INC.  
 (Name of small business issuer in its charter)

<TABLE>			
<CAPTION>			
<S><C>	<C>	<C>	<C>
Delaware	3629	27-0016420	
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)	

-----  
 19 W. 34th Street, Suite 1008  
 New York, NY, 10001  
 (212) 937-3580  
 (Address and telephone number of principal executive offices and principal place of business)  
 -----

Harry Mund  
 Lapis Technologies, Inc.  
 19 W. 34th Street, Suite 1008  
 New York, NY, 10001  
 (212) 937-3580  
 (Name, address and telephone number of agent for service)  
 -----

With copies to:  
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Approximate date of commencement of proposed sale to public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box:  [X]

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

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box:  [ ]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Security(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration fee
Common Stock, \$.001 Par Value	733,000	\$.15	\$109,950	\$10.12
TOTAL	733,000	\$.15	\$109,950	\$10.12 (2)

(1) Estimated solely for purposes of calculating the registration fee.

(2) Registration fee was paid when Form SB-2 was filed on November 4, 2002.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING STOCKHOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

SUBJECT TO COMPLETION DATED \_\_\_\_\_, 2003

LAPIS TECHNOLOGIES, INC.

733,000 Shares of Common Stock

This prospectus relates to the sale of up to 733,000 shares of our common stock by some of our stockholders.

This is the initial registration of our shares, and no public market presently exists. The selling stockholders will sell the shares from time to time at \$.15 per share. If our shares become quoted on the OTC Bulletin Board, sales will be made at prevailing market prices or privately negotiated prices.

We will not receive any proceeds from any sales made by the selling stockholders, but will pay the expenses of this offering.

Investing in our common stock involves risks. You should carefully consider the matters described in Risk Factors beginning on page 3.

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

The date of this prospectus is \_\_\_\_\_, 2003.

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PROSPECTUS SUMMARY

This summary highlights important information about our business and about this offering. Since it is a summary, it does not contain all the information you should consider before purchasing our common stock. In this prospectus, unless the context requires otherwise, "we" and "us" refer to Lapis Technologies, Inc. ("Lapis") and its wholly owned subsidiary, Enertec Electronics Limited.

OUR BUSINESS

We were formed in January 2002. Our operations are conducted in Israel through our wholly owned subsidiary, Enertec Electronics Limited, an Israeli corporation that has been in business since December 1991. Our business is to manufacture, market and distribute electronic components and products relating to power supplies, converters and related power conversion products, automatic test equipment (ATE), simulators and various military and airborne electronic systems. We are a distributor of our own products as well as products manufactured by other companies that we represent.

Our executive offices are located at 19 W. 34th Street, Suite 1008, New York, NY, 10001, Telephone: (212) 937-3580.

THE OFFERING

Common Stock Offered By The

Selling Stockholders . . . . . The selling stockholders are offering up to 733,000 shares of our common stock.

Use of Proceeds. . . . . We will not receive any of the proceeds from the sale of the shares offered by the selling stockholders.

SELECTED HISTORICAL FINANCIAL DATA

The following table sets forth selected financial information regarding Lapis for the years ended December 31, 2001 and 2000 (audited) and the nine months ended September 30, 2002 and 2001 (unaudited). All of this information was derived from our financial statements appearing elsewhere in this prospectus. However, only the financial information through December 31, 2001 is audited; the financial information for the period ended September 30, 2002 is unaudited. In the opinion of management, the financial information for the period ended September 30, 2002 contains all adjustments, consisting only of normal recurring accruals, necessary for the fair presentation of the results of operations and financial position for such period. You should read this selected financial information in conjunction with our management's discussion and analysis, financial statements and related notes to the financial statements, each appearing elsewhere in this prospectus.

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
 SELECTED HISTORICAL FINANCIAL DATA  
 (\$ in thousands, except share and per share information)  
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	Years Ended December 31,			Nine-Month Periods Ended September 30,	
	2001	2000	1999	2002	2001
	(unaudited)				
<S>	<C>	<C>	<C>	<C>	<C>
Consolidated Statements of Income Data:					
Net Sales . . . . .	\$ 4,254	\$ 5,813	\$ 4,481	\$ 3,491	\$ 3,446
Cost of goods sold . . . . .	3,124	3,975	3,537	1,962	1,800
Gross profit . . . . .	1,130	1,838	944	1,529	1,646
Selling, general and administrative expenses . .	962	930	566	858	1,399
Operating income . . . . .	168	908	378	671	247
Other income (expense)					
Interest expense, net . . . . .	(141)	(113)	(94)	(180)	(84)
Other income . . . . .	2	3	3	57	2
Total other income (expense) . . . . .	(139)	(110)	(91)	(123)	(82)
Income before provision for income taxes . . . .	29	798	287	548	165
Provision for income taxes . . . . .	10	293	100	162	-
Net Income . . . . .	\$ 19	\$ 505	\$ 187	\$ 386	\$ 165
Earnings per share (basic and diluted) . . . . .	*	\$ 0.11	\$ 0.04	\$ 0.08	\$ 0.03
Weighted average common shares outstanding . . .	4,750,000	4,750,000	4,750,000	5,145,549	4,750,000

Consolidated Balance Sheet Data:

	December 31, 2001	December 31, 2000	September 30, 2002 (unaudited)	September 30, 2001 (unaudited)
Total current assets . . . . .	\$ 3,119	\$ 2,750	\$ 1,703	\$ 2,777
Total other assets . . . . .	\$ 286	\$ 448	\$ 372	\$ 811
Total assets . . . . .	\$ 3,405	\$ 3,198	\$ 2,075	\$ 3,588
Notes payable. . . . .	\$ 1,262	\$ 1,023	\$ 308	\$ 2,061
Total current liabilities. . . . .	\$ 2,760	\$ 2,681	\$ 1,747	\$ 2,126
Total stockholders' equity . . . . .	\$ 396	\$ 424	\$ 241	\$ 432
Total liabilities and stockholder's equity . . .	\$ 3,405	\$ 3,198	\$ 2,075	\$ 3,588

\* Per share amount is less than \$0.01.

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WHERE YOU CAN GET MORE INFORMATION

At your request, we will provide you, without charge, with a copy of any information incorporated by reference in this prospectus. If you want more information, write or call us at our executive offices.

Our fiscal year ends on December 31. We intend to furnish our shareholders annual reports containing audited financial statements and other appropriate reports.

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RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AND ALL OTHER INFORMATION CONTAINED IN THIS PROSPECTUS BEFORE INVESTING IN OUR COMMON STOCK. WE BELIEVE THIS SECTION ADDRESSES ALL MATERIAL RISKS SPECIFIC TO US. INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. ANY OF THE FOLLOWING RISKS COULD ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND COULD RESULT IN A COMPLETE LOSS OF YOUR INVESTMENT.

Our success is dependent on our ability to anticipate and respond to rapid changes involving the electronic components and telecommunications industries. Many of our competitors have greater resources than us and may be more efficient in addressing these issues.

Our ability to achieve continued commercial acceptance of our products and to obtain and maintain a significant market share is dependent on the advancement of our existing technology, our ability to respond to the growth in the electronic components markets in which we compete, our ability to encompass evolving customer requirements, and our ability to provide a broad range of products. Many of our existing and potential competitors have larger technical staffs, more established and larger marketing and sales organizations, and significantly greater financial resources than we do. Our lack of resources relative to our competitors may cause us to fail to anticipate or respond adequately to technological developments and customer requirements or to experience significant delays in developing or introducing new products and services. These failures or delays could cause reductions in our competitiveness, revenues, profit margins or market share.

Our inability to obtain components of our products from outside suppliers due to adverse industry changes or price increases, may cause us to eliminate product lines in whole or in part, or cause delays in our product shipments.

If our existing suppliers are unable to meet our requirements, we would be required to obtain other suppliers whose terms may not be satisfactory to us. If we are unable to obtain other suppliers or receive satisfactory terms, we could be required to alter product designs to use alternative components. Such alterations may not be accepted by our customers. If alterations are not feasible, we could be required to eliminate products from our product line.

Shortages of components could not only limit our product line and production capacity, but also could result in higher costs due to the components being in short supply or the need to use higher cost substitute components. Significant increases in the prices of components could have a material adverse effect on our results of operations because our products compete on price, and we may not be able to adjust product pricing to reflect increases in component costs. Also, an extended interruption in the supply of components or a reduction in their quality or reliability would have a material adverse effect by impairing our ability to deliver quality products to our customers in a timely fashion. Delays in deliveries due to shortages of components or other factors may result in cancellation by our customers of all or part of their orders.

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A key element of our growth will be our ability to enhance our sales and Marketing team. If we fail to build this team, we may not achieve our sales Targets, which may affect our revenues, profit margins and market share.

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. To succeed in the implementation of our business strategy, our management team must rapidly execute our sales and marketing strategy. Our systems, procedures and controls may not be adequate to support our needed growth in our sales and marketing department.

We may need to raise additional capital in the future and may be unable to Do so on acceptable terms. This could limit our ability to grow and carry out Our business plan.

Based on our current business plan, we anticipate that our existing cash balances and cash flow from our operations will be sufficient to permit us to conduct our operations and to carry out our contemplated business plan through the next twelve months. After that time, we may require additional capital. Alternatively, we may need to raise additional funds sooner if our estimates of revenues or capital requirements change or are inaccurate. We may also need to raise additional funds sooner than expected to finance our expansion plans, develop new products, enhance our existing products or respond to competitive pressures. We cannot be certain that we will be able to obtain additional financing on commercially reasonable terms or at all, which could limit our ability to grow.

Our international operations will expose us to the risk of fluctuations in Currency exchange rates.

We have established and acquired an international subsidiary that prepares its balance sheets in the relevant foreign currency. In order to be included in our consolidated financial statements, these balance sheets are converted, at the then current exchange rate, into United States dollars, and the statements of operations are converted using weighted average exchange rates for the applicable period. Accordingly, fluctuations of the foreign currencies relative to the United States dollar could have an effect on our consolidated financial statements. Our exposure to fluctuations in currency exchange rates has increased as a result of the operations of our international subsidiary. However, because historically the majority of our currency exposure has related to financial statement translation rather than to particular transactions, we do not intend to enter into, nor have we historically entered into, forward currency contracts or hedging arrangements in an effort to mitigate our currency exposure.

Further, we expect that our receivables will be denominated primarily in new Israeli shekels, as well as other currencies including the Euro, while our payables will be denominated in a different mix of currencies. For example, 35% of our expenses for the year ended December 31, 2001 were denominated in new Israeli shekels. Our shekel denominated expenses consist principally of salaries and related personnel expenses. We anticipate that for the foreseeable future a portion of our expenses will continue to be denominated in shekels. As we expand our sales and marketing efforts in different regions, we also expect to incur

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increasing amounts of our expenses in the Euro, as well as other local currencies. If the value of a currency in which our receivables are denominated weakens against the value of a currency in which our expenses are denominated, there will be a negative impact on our profit margin for sales of our products.

We will direct all of our customized military related business to enertec Systems 2001 ltd., an entity in which we hold a 25% equity interest. The effects of this redirection of business may be adverse to our revenues, profit margins and market share.

A substantial portion of our revenues is generated through the sales of customized military related systems. Sales in this sector have been steadily increasing in light of the current worldwide political situation and the demand for military products. However, we are not financially or operationally equipped to handle the growth rate, and therefore, have decided to direct all of our customized military related business to Enertec Systems 2001 Ltd ("Enertec Systems"). By foregoing this portion of our business, we may experience a material drop in our revenues, profit margins and market share. Although we currently maintain a 25% equity interest in Enertec Systems through our wholly-owned subsidiary Enertec Management Limited, this interest may not be significant enough to offset the loss we may experience from redirecting this business. We currently do not plan to acquire more shares in Enertec Systems.

Conditions in israel affect our operations and may limit our ability to

Produce and sell our product, which could decrease our revenues.

All of our operating and manufacturing facilities, as well as our executive offices and back-office functions, are located in the State of Israel. We are, therefore, directly affected by the political, economic and military conditions in Israel. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility with these Arab neighbors, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been a significant increase in violence, primarily in the West Bank and Gaza Strip, and negotiations between Israel and Palestinian representatives have ceased. In addition, in February 2001, a new prime minister was elected in Israel and a new government was formed. Any future armed conflict, political instability or continued violence in the region would likely have a negative effect on our business condition and harm our results of operations. Furthermore, several countries still restrict trade with Israeli companies and that may limit our ability to make sales in those countries. These restrictions may have an adverse impact on our operating results, financial condition or the expansion of our business. In addition, any major hostilities involving Israel, the United States or Europe, including military activities in defense against terrorist activities, could have a material adverse effect on our business and financial condition. Any interruption or curtailment of trade between Israel and any other country in which we have strategic relationships could adversely affect such relationships.

Our operations could be disrupted as a result of the obligation of key Personnel in Israel to perform military service.

Generally, all male adult citizens and permanent residents of Israel under the age of 54 are, unless exempt, obligated to perform up to 36 days of military reserve duty annually. Additionally, all Israeli residents of this age are

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subject to being called to active duty at any time under emergency circumstances. Many of our officers and employees are currently obligated to perform annual reserve duty. Our operations could be disrupted by the absence for a significant period of one or more of our officers or employees due to military service. Any disruption to our operations as a result of our personnel being called to military duty could materially adversely affect the development of our business and our financial condition.

Inflation and the Israeli economy may substantially impact our revenue and Profit.

Historically Israel has suffered from high inflation and the devaluation of its currency, the new Israeli shekel, as compared to the U.S. dollar. Future inflation or further devaluations of the new Israeli shekel may have a negative impact on our revenues and profits. If inflation causes substantial price increases or if the shekel devalues, we will be required to spend more shekels to obtain the same product. In addition, the Israeli economy is currently in the midst of a recession, which further devalues the shekel as compared to the U.S. dollar, the Euro and other currencies. The longer this recession continues, the more substantially our business and profit will be negatively impacted. The Israeli economy may not improve. If it does improve, it may take an extended period of time to do so.

It may be difficult to serve process on or enforce a judgment against our Israeli officers and directors, making it difficult to bring a successful Lawsuit against our officers and directors, individually or in the aggregate.

Service of process upon our directors and officers, who reside outside the United States, may be difficult to obtain within the United States. This could limit the ability of our stockholders to sue our directors and officers based upon an alleged breach of duty or other cause of action. However, subject to limitation, Israeli courts may enforce United States final executory judgments for liquidated amounts in civil matters, obtained after a trial before a court of competent jurisdiction, according to the rules of private international law currently prevailing in Israel, which enforce similar Israeli judgments, provided that:

- - Due service of process has been effected and the defendant was given a reasonable opportunity to defend;
- - the obligation imposed by the judgment is executionable according to the laws relating to the enforceability of judgments in Israel and such judgment is not contrary to public policy, security or sovereignty of Israel;
- - such judgments were not obtained by fraud and do not conflict with any other valid judgments in the same matter between the same parties; and
- - an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the foreign court.

Foreign judgments enforced by Israeli courts generally will be payable in Israeli currency, which can then be converted into United States dollars and transferred out of Israel. The judgment debtor may also pay in dollars. Judgment creditors must bear the risk of unfavorable exchange rates.

Under current Israeli law, we may not be able to enforce covenants not to Compete and may be unable to prevent our competition from benefiting from the Expertise of some of our former employees.

We currently have non-competition agreements with all of our employees. These agreements prohibit our employees, if they cease working for us, from directly competing with us or working for our competitors. Recently, 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. If we cannot demonstrate that harm would be caused to us, we may be unable to prevent our competitors from hiring and benefiting from the expertise of our former employees.

There has been no prior public market for our common stock. A public Market for our common stock may not develop upon the completion of this Offering. Unless a public market develops at some future time, you may not be Able to sell your shares.

Prior to this offering, there has been no public market for our common stock and a public market for our common stock may not develop upon completion of this offering. Failure to develop or maintain an active trading market could negatively affect the value of our shares and make it difficult for you to sell your shares or recover any part of your investment in us. Even if a market for our common stock does develop, the market price of our common stock may be highly volatile. In addition to the uncertainties relating to our future operating performance and the profitability of our operations, factors such as variations in our interim financial results, or various, as yet unpredictable factors, many of which are beyond our control, may have a negative effect on the market price of our common stock.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This registration statement contains certain financial and other information and statements regarding our operations and financial prospects of a forward-looking nature. Although these statements accurately reflect management's current understanding and beliefs, we caution you that certain

important factors may affect our actual results and could cause such results to differ materially from any forward-looking statements which may be deemed to be made in this registration statement. Statements in this registration statement, including without limitation those contained in the sections entitled "Risk Factors" and "Description of Business" describe factors, among others, that could contribute to or cause such differences. For this purpose, any statements contained in this registration statement which are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as, "may", "will", "intend", "expect", "believe", "anticipate", "could", "estimate", "plan" or "continue" or the negative variations of those words or comparable terminology are intended to identify forward-looking statements. Such forward-looking information and statements may not be reflective in any way of our actual future operations or financial results, and such information and statements should not be relied upon either in whole or in part in connection with any decision to invest in the shares.

USE OF PROCEEDS

The selling stockholders are selling their shares covered by this prospectus for their own accounts. Accordingly, we will not receive any proceeds from the sale of the shares.

CAPITALIZATION

The following table sets forth the capitalization of Lapis as at December 31, 2001 and September 30, 2002.

<TABLE>  
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	December 31, 2001	September 30, 2002 (unaudited)
	-----	
	(\$ in thousands)	
<S>	<C>	<C>
Total liabilities . . . . .	\$ 3,009	\$ 3,156



Stockholders' equity:

Preferred stock, \$.001 par value, 5,000,000 shares authorized; none outstanding	-	-
Common stock, \$.25 par value; 100,000,000 shares authorized; 4,750,000 and 5,483,000 issued and outstanding, respectively	1,188	1,371
Additional paid in capital	(1,188)	(1,242)
Retained earnings	472	449
Accumulated other comprehensive loss	(76)	(112)
Subscription receivable	-	(34)
	-----	-----
Total stockholders' equity	396	432
	-----	-----
Total capitalization	\$ 3,405	\$ 3,588
	=====	=====

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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, to manufacture and distribute 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.

Enertec Electronics maintains two divisions, the Systems Division and the Electronics Division. The Systems Division designs, develops and manufactures test systems for electronics manufacturers in accordance with their specifications. The Electronics Division markets and distributes the test systems, power supplies and other electronic components manufactured by us, and by other manufacturers who engage us to distribute their products. We have entered into representative and distribution agreements with seven such manufacturers, four of which have been reduced to written contacts.

Test systems and testing solutions are used to examine systems, electrical devices or products, during their final stages of production. Such systems are tested to ensure their integrity and to foster quality control. The process involves analyzing the product to determine which of its functions are vulnerable to error, and to determine which type of testing equipment would best discover and solve the potential problems.

OUR SUBSIDIARY

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 approximately 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. It manages the importing of raw materials, and our engineering and electronic design services.

Enertec Systems 2001 Ltd. ("Enertec Systems"), a private Israeli company, is owned by Enertec Management Limited (25%), Harry Mund (27%), our President and Chief Executive Officer, and Zvi Avni (48%), 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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As of December 31, 2002, Enertec Systems was making 36% of our customized military related systems, and is expected to make approximately 80% of these

systems by year-end 2003. Military related products are divided into two sub-sections, the customized systems and the standard (off-the-shelf) systems. It is our intention to eventually direct all of our customized military related systems business to Enertec Systems, while retaining the standard military related systems business within our Systems Division. The reason for the implementation of this business plan is twofold. First, it will allow Enertec Electronics to focus on its primary business, manufacturing and distributing standard and customized power supplies in the non-military arena, as well as the distribution of standard military related power supplies. Second, it will save Enertec the expense of becoming compliant with the stringent security clearance standards required by military customers who demand customized systems. As a whole, Enertec Electronics does not meet these high standards and the cost to become compliant is not justifiable. All the employees of Enertec Systems meet these standards. There is no formal arrangement or agreement between us and Enertec Systems.

#### ELECTRONICS DIVISION

This division is responsible for:

- the marketing and distribution of power supplies manufactured by us and third-party firms that engage us to distribute their products; and
- the marketing and distribution of power testing equipment we manufacture to our 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 contacts with various power supply manufacturers. These manufacturers granted us exclusive rights to sell their products in particular territories, entitling us to commissions for each sale.

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,

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we provide complete ATE Systems, that is 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.

#### SYSTEMS DIVISION

This division is responsible for designing, developing and manufacturing test systems for electronics manufacturers 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 the customer's specifications.

We are an ISO9001 approved company. The International Organization of Standardization (ISO) has created this model designation 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 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 the industry insist on doing business with companies that are least ISO9002 approved, a standard that is less demanding than ISO9001. The ISO9002 standard is related mainly to the quality assurance of

the manufacturing process, while the higher ISO9001 standard includes both the quality assurance of the manufacturing process component as well as the quality of the design. The ISO9001 standard is important for customers who are placing orders for custom made products.

ISO9001 quality assurance model is made up of 20 sets 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.
- - Pursue the continual improvement of the system from an objective evaluation of its performance.

A typical process for design, 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.

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- - Establishing the quality organization, and 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.
- - Managing the improvement program.

#### NEW PRODUCTS

In the third quarter of 2001, we introduced into the market an ATE for unmanned aircraft priced at approximately \$90,000. This system is designed to test the datalink, or the communication channels, between the ground station and the unmanned aircraft. The market has responded well to this ATE. As of September, 2002, we have sold 8 units to Tadrian Spectralink, generating revenues of approximately \$720,000. These products will be delivered in the first quarter of 2003.

We have recently been approved for sales into the United States by the Underwriters Laboratories, that is, approved to carry the UL sign, for a low cost line of power supplies for the ADSL (fast internet) market. This product line is estimated to cost approximately \$10,000 to develop, with an expected price to our customers of \$6 per unit. Although approved, we have not aggressively marketed this product due to the slowdown in ADSL sales.

In the fourth quarter of 2002, we launched a handheld pre-loadline tester. This device is intended to test the proper functioning of the communication between the aircraft and the payload, which payload could be bombs or missiles. This product is estimated to cost in research and development approximately \$100,000, with an expected price per unit to our customers of \$30,000. As of December 31, 2002, we had received an order from Elbit Systems for five units, for a total of \$150,000.

#### 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
- - Industrial

We currently sell only to Israeli companies who, in turn, incorporate our components into their products for resale to the global markets. 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 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

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on us for technical services, products and support, and consider us to be their

own "power supply 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, as well as offering free samples of our products to new customers. We intend to provide to new customers for free, custom designed samples, or prototypes, in accordance with each of their specifications. For instance, a potential customer in the process of designing a new electronic product will require a power supply. We may provide a free sample power supply to the customer to incorporate into its design. When the product enters the production stage, our power supply will already be an intricate part of the product, generating orders for us. Free sampling, or prototypes, will allow potential customers to compare our products with those of our competition and discover our product specialization and competitive pricing.

Within the Power Supply/Electronics Division, the main competitive advantage of the standard units is price. The main competitive factor for the custom units is sophistication and application results. Our Electronics Division has maintained pricing at a level approximately 50% lower than that of our competitors for customized products and approximately 15% to 20% lower for our standard products.

Our Systems Division does not use pricing as a competitive component because each application is unique and proprietary. The System Division relies on detailed customization, innovative state of the art solutions using cutting edge technology, and its capacity to provide optimal and cost effective solutions based on technological specialization in all areas of military and avionics systems.

We have also increased the technical staff for our Systems Division to maintain our technological edge and increase the variety of our products, and in particular, products relating to the avionics and defense systems.

#### MARKET CONDITIONS

Worldwide recession in high-tech, telecommunications, and Internet related products has affected the Electronics Division's power supplies' sales. The overall market dropped by about 50% during 2001. Our power supplies' sales during 2001 are lower by only approximately 25%. This can be explained by the sale of our military related products. The military related business has increased significantly in light of the current worldwide political situation and the demand for military products. Local manufacturers of military equipment have received increased orders from local and international markets.

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Additionally, manufacturers who 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 defense manufacturers such as Elbit, El-Op, Rafael, Israeli Aircraft Industry and Tadiran. 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 eligible bidders for military contracts need to be "approved companies," which are companies that a specific customer has pre-approved to design and manufacture for it. Few of our competitors fall within this category.

The Systems Division sales have increased by approximately 30% during 2001 and increased approximately 50% during 2002. These results are the direct product of our work ethic, technical superiority, innovations in testing solutions, and cost efficient productions. At the present time, our plant is working at near full capacity.

Our stable growth is largely due to our diversified client base. Increases in sales in the telecommunications, industrial control, medical and the military core business sectors, have made up for the decrease in sales in our commercial

products. However, our commercial market related business decreased less than the overall market for two reasons. First, our sales force pays greater attention to our customer relations, providing more consultation than our competition does. Second, we offer more customized power supplies, which makes it more difficult for our competitors to bid successfully on the same projects.

#### CUSTOMERS

Our customers are most of the 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.

Israeli Aircraft Industry (IAI) accounts for approximately 57% of our sales. Although the loss of this account is unlikely, we have made an effort to decrease this percentage by increasing our sales to Elbit, Rafael and several other new customers.

We currently are engaged in fulfilling long-term (1-2 years) purchase orders with various customers for power supplies. Below is a table listing the names of the customers and, if the orders are completely satisfied, the revenue that will be generated from each:

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<TABLE>  
<CAPTION>

CUSTOMER	AMOUNT
<S>	<C>
Kollmorgen-Servotronics Ltd. . .	\$ 56,000
Synel Systems Ltd. . . . .	20,000
Orex Computed Radiography Ltd. .	20,000
Big Band Networks Ltd. . . . .	108,000
Camtek Ltd- AQI Systems. . . . .	10,000
Rom-Phone Ltd. . . . .	10,000
RAD Data Communications Ltd. . .	110,000

</TABLE>

We also are engaged in fulfilling purchase orders for testing equipment with various customers. Below is a table listing the names of the customers and again, if the orders are completely satisfied, the revenue that will be generated from each:

<TABLE>  
<CAPTION>

CUSTOMER	AMOUNT
<S>	<C>
Israeli Aircraft Industry . . . . .	\$880,000
Tadiran Spectralink Ltd. . . . .	430,000
Elbit Systems Ltd. . . . .	740,000
El-Op-Electrooptics Industries Ltd. .	460,000
Rafael-Armament Development Authority	740,000

</TABLE>

#### BACKLOG

As of December 31, 2002 we had a backlog of written firm orders for our products and services in the amount of approximately \$ 1,964,000, as compared to a backlog of approximately \$2,300,000 as of December 31, 2001.

During the years 2001 and 2002, there was a significant increase in orders for military ATE systems, and a decrease in orders for commercial/telecommunications power supplies. The delivery lead-time of ATE systems is six to twelve months, which gives rise to a significant backlog. The delivery time for commercial products, such as power supplies, is from one to two weeks to one to two months, so that our backlog is generally small for this kind of product.

The amounts of orders included in the December 31, 2002 backlog figure are as follows:

- - \$386,000 representing test systems for arrow missiles for Israel Aircraft Industry;
- - \$205,000 representing airborne power supplies and test systems for infra-red payload for El-Op;
- - \$288,000 representing test systems for pilot helmet and other ATE for Elbit;

- - \$27,000 representing airebourne power supplies for Rafael Armament Development Authority; and
- - \$598,000 representing data link test equipment for Tadrian Spectralink.

The backlog of firm orders for commercial products is approximately \$420,000.

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A typical order size for test systems is \$30,000 to \$250,000 depending on the nature of the products for which the system is required.

Our backlog is bigger and our lead-time is shorter than almost all of our competitors. The backlog and lead-time is also a function of the economy. That is, in tougher economic times, companies tend to order what they need immediately, rather than carrying an inventory. In turn, we also do not carry much excess inventory, and thus the lead-time is slightly longer. We anticipate lowering lead-time by 50% by keeping standard units in stock and by hiring more production staff. Currently, we have a 4-week lead-time with our standardized products, and a 4-month lead-time with our customized products.

#### COMPETITION

We face intense competition 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. However, we have been able to compete effectively with these companies for the following reasons:

- Our power supplies are high quality, low cost, and are backed by a large number of experienced technicians, a 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.
- 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.
- We maintain a strong technical team that provides solutions to our customer's needs within our target niche.
- 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. For example, we have backlog orders to December, 2003 from Tadiran Spectralink, which uses our ATE for unmanned aircrafts, and Kolmorgen, which incorporates our control systems into three of their robot models. Additionally, we mass-produce power supplies for Synel Systems' entry control system. Moreover, we are the sole manufacturer of power supplies for Big Band Networks, a Video On Demand provider. We currently have an order for five hundred (500) power supplies that is incorporated into their switchboard wideband network. There are three (3) separate power supply components in Big Band Networks' switchboard.

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#### 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 a supplier could cause possible short-term losses. These losses would not have an adverse effect on our long-term business goals.

Our principal suppliers are Emco High Voltage and Hitron Electronics Corp.

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

<TABLE>  
<CAPTION>

FUNCTION	NUMBER OF CURRENT ENERTEC ELECTRONICS LIMITED EMPLOYEES	NUMBER OF EMPLOYEES EXPECTED IN 2003
<S>	<C>	<C>
Management & Administration	4	3
Engineering . . . . .	3	4
Production . . . . .	4	1
Quality Assurance . . . . .	1	1
Buyer . . . . .	1	1
Marketing and Sales . . . . .	2	7
Programmers . . . . .	1	1
	-----	-----
Total . . . . .	16	18

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

We spent \$100,000 (or 2% of revenues), \$200,000 (or 4% of revenues), and \$220,000 for research and development in the years 2000, 2001, and 2002 respectively.

These expenditures have adequately satisfied our research and development requirements.

#### SEASONAL ASPECTS

We do not experience seasonal variations in our operating results.

#### PATENTS AND TRADEMARKS

We are not dependent on patents or trademark protection with regard 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 USA 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

#### PROPERTIES

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. The Haifa property is leased at \$19,200 per annum. 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.

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#### LEGAL PROCEEDINGS

We are not subject to any pending or threatened legal proceedings, except for the lawsuit described below.

Orckit Communications brought an action in the Tel Aviv District Court against Gaia Converter, a company for which we act as sales representatives, Alcyon Production Systems, a subcontractor of Gaia Converter, and Enertec Electronics, 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. 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 defense to this claim on the basis 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. Enertec Electronics has had initial informal discussions with Orckit Communications about removing Enertec Electronics as a Defendant in the action. Neither Gaia Converter nor Alcyon Production Systems have filed a defense to this action, and consequently Orckit Communications requested and obtained default judgments from the Tel Aviv District Court against both Gaia Converter and Alcyon Production Systems. The granting of these judgments render the continuation of the action against Enertec Electronics highly improbable. However, if the proceedings are continued, Enertec Electronics intends to defend this action vigorously and we do not believe that it will have a material adverse impact on our business.

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

##### OVERVIEW

The following discussion should be read in conjunction with our financial statements and the accompanying notes appearing subsequently under the caption "Financial Statements", along with other financial and operating information included elsewhere in this prospectus. Certain statements under this caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" constitute "forward-looking statements" under the Reform Act. See "Cautionary Note Regarding Forward Looking Statements". For a more complete understanding of our operations see "Risk Factors" and "Description of Business".

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#### LIQUIDITY AND CAPITAL RESOURCES

##### OVERVIEW

As of September 30, 2002, our cash balance was \$82,000 as compared to \$86,000 at December 31, 2001. Our accounts receivable at September 30, 2002 were \$1,428,000, as compared to \$739,000 at December 31, 2001. The increase in accounts receivable is a result of increasing the period of credit granted to our customers from 60 to 90 days. Total current assets at September 30, 2002 were \$2,777,000, as compared to \$2,233,000 at December 31, 2001.

We do not expect any effect on our net profitability due to the increased period of credit granted to our customers from 60 to 90 days. This increased period has become an industry standard in Isreal, and accordingly, financial institutions have also increased their periods of credit, alleviating pressures on us. We currently do not have material balances of accounts receivables, and therefore, are not concerned with collectibility issues as a result of this



change of payment terms. Although, this action will minimize the overall cash-flow to us, our tight control will enable us to detect adverse situations immediately.

#### FINANCING NEEDS

We expect our capital requirements to increase significantly 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.

#### FINANCINGS

During the period June 2002 through September 2002, we entered into 31 subscription agreements with private investors, pursuant to which we issued an aggregate of 233,000 shares of our common stock at \$.15 per share. These private investments generated total proceeds to us of \$34,950.

Based on our current business plan, we anticipate that our existing cash balances and cash flow from our operations will be sufficient to permit us to conduct our operations and to carry out our contemplated business plans for the next twelve months. However, we may conduct additional financing to expand our operations, using new capital to develop new products, enhance existing products or respond to competitive pressures, although we do not have definitive plans to do so.

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#### RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001.

For the nine months ended September 30, 2002, we had total revenue of \$3,491,000 as compared to \$3,446,000 for the nine month period ended September 30, 2001, an increase of \$45,000 or 1.3%. Of our revenues during the nine months ended September 30, 2002, \$1,536,000 or 44% were from third party distribution and \$1,955,000 or 56% were from sales of products that we manufacture. This increase is due to increase in sales within the systems division of Enertec Electronics.

Gross profit totaled \$1,529,000 for the nine months ending September 30, 2002, as compared to \$1,646,000 for the nine months ended September 30, 2001, a decrease of \$117,000 or 7.1%. The gross profit as a percentage of sales for the nine months ended September 30, 2002 was 43.8% as compared to 47.8% for the nine months ended September 30, 2001. The decrease in our gross profit overall is due to the reclassification of wages. For the period ended September 30, 2002, wages were a component of costs of goods sold, whereas, for the period ended September 30, 2001, wages were a component of general and administrative expenses.

Total operating expenses in each of the nine month periods ended September 30, 2002 and September 30, 2001 were comprised of selling, general and administrative expenses. Operating expenses for the nine month periods ended September 30, 2002 and September 30, 2001 were \$858,000 and \$1,399,000, respectively, a decrease of \$541,000, or 38.7%. The decrease in operating expenses is attributable to the reclassification of our import expense. For the period ended September 30, 2001, import expenses were included as an operating expense. For the period ended September 30, 2002, import expenses were redirected to Enertec Systems 2001.

Our net income was \$386,000 in the nine months ended September 30, 2002 as compared to \$165,000 in the nine months ended September 30, 2001. This increase is a direct result of the import expense reclassification.

FISCAL YEAR ENDED DECEMBER 31, 2001 COMPARED TO FISCAL YEAR ENDED DECEMBER 31, 2000.

For the fiscal year ended December 31, 2001, we had total revenue of \$4,254,000. Revenue was \$5,813,000 for the fiscal year ended December 31, 2000. This decrease in revenue of \$1,559,000, or 26.8%, is due to a worldwide recession and its effects on the sale of our high-tech, telecommunications, and Internet related products.

Gross profit totaled \$1,130,000 for the fiscal year ended December 31, 2001 as compared to \$1,838,000 for the fiscal year ended December 31, 2000, a decrease of \$708,000 or 38.5%. Gross profit as a percentage of sales for the fiscal year ended December 31, 2001 was 26.6% as compared to 31.6% for the fiscal year ended December 31, 2000. The decrease in our gross profit was due to higher than anticipated production costs as a result of the increase in the dollar rate.

Total operating expenses in each of the fiscal years ended December 31, 2001 and 2000 were comprised of selling, general and administrative expenses. Operating expenses for the fiscal years ended December 31, 2001 and 2000 were \$962,000 and \$930,000, respectively, an increase of \$32,000, or 3.4%. The increase in operating expenses is attributable to the general increase in overhead which accompanied the expansion of our business.

Our net income was \$10,000 in the fiscal year ended December 31, 2001 compared to \$505,000 in the fiscal year ended December 31, 2000. This decrease was due to the decrease in our revenues, the decrease in our margins and the slight increase in our operating expenses.

The non-military related division of our business is down approximately 50% due to the downturn in the technology industry, coupled with the effects of the events of September 11th. However, this downturn is offset by the dramatic rise of in excess of 100% in the military sector as a result of the rise in global political unrest, as exacerbated by the events of September 11th. The increase of the local and international military related business created a

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much larger demand for military products. Local manufacturers of military equipment have received increased orders for the local and international markets. Consequently, our growth has not be affected.

As of December 31, 2002, Enertec Systems was making 36% of our customized military related systems, and is expected to make approximately 80% of these systems by year-end 2003. Military related products are divided into two sub-sections, the customized systems and the standard (off-the-shelf) systems. It is our intention to eventually direct all of our customized military related systems business to Enertec Systems, while retaining the standard military related systems business within our Systems Division. This will allow Enertec Electronic to focus on its primary business and will not require Enertec Electronic to hire employees to comply with stringent security clearance standards. This reallocation of business will have minimal affects on our future operations and cash flow. Enertec Systems has doubled its revenues and profits since its inception. It is better suited to focus on this sector and has aggressively set bids for various projects. It is building critical mass and economies of scale within this specialized arena.

During the years ended December 31, 2001 and 2000 approximately 85% and 50%, respectively, of our sales were to three and two customers, respectively. For the nine month period ended September 30, 2002 approximately 77% of our sales were to Isreali Aircraft Industry (57%), Rafael-Armament Development Authority (11%) and Elbit Systems Ltd. (9%). For the nine month period ended September 30, 2001 Isreali Aircraft Industry and Rafael-Armament Development Authority accounted for 65% and 15% our sales, respectively.

#### MANAGEMENT

DIRECTORS, OFFICERS, KEY EMPLOYEES AND CONSULTANTS

DIRECTORS AND EXECUTIVE OFFICERS

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

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relationships among any of our directors or executive officers.

Name	Age	Position
Harry Mund	54	Chairman of the Board, Chief Executive Officer, President and Secretary
Miron Markovitz	54	Director and Chief Financial 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 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 and our Chief Financial Officer since our inception, and 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, 40, 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 (25%), Harry Mund (27%) and Mr. Avni (48%), 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, 51, 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, 55, 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, Kazakhtan. 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.

EXECUTIVE COMPENSATION

The following table shows compensation earned by our Chief Executive Officer and President during fiscal 2001, 2000 and 1999. Since Lapis Technologies, Inc. did not compensate any executive during fiscal 2001, 2000 and 1999, 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 2001, 2000 and 1999.

Summary Compensation Table

<TABLE>  
<CAPTION>

	Annual Compensation	Long Term Compensation			
		Awards	Securities Underlying	LTIP	Payouts
	Other Annual	Restricted Stock	Securities Underlying	LTIP	All Other
-					
-					

Name And Principal Positions	Year	Salary (\$)	Bonus (\$)	Compen- sation (\$)	Awards (\$)	Options SARs (#)	Payouts (\$)	Compen- sation (\$)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Harry Mund, President and Chief Executive Officer.	2001	405,900	330,000	0	0	0	0	0
	2000	450,000	330,000	0	0	0	0	0
	1999	255,000	330,000	0	0	0	0	0

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#### 2002 STOCK OPTION PLAN

We adopted 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 presently administered by our board of directors, which selects the eligible persons to whom options shall be granted, determines the number of common shares subject to each option, the exercise price therefore 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 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.

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#### 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 \$250,000 bearing interest at a rate of 4% per annum. This loan was extended to Mr. Mund in October, 2001 and was repaid in full in June, 2002.

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 (25%), Harry Mund (27%) and Zvi Avni (48%), an employee of Enertec Systems. Enertec Systems commenced operations on January 1, 2002, and will make part of our military related systems in conjunction with our Systems Division. As of December 31, 2002, Enertec Systems was making 36% of our military related systems, and is expected to make approximately 80% by year-end 2003. All other systems are made by us.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of December 31, 2002. The information in this table provides the ownership information for:

- each person known by us to be the beneficial owner of more than 5% of our common stock;
- each of our directors;
- each of our executive officers; and
- our executive officers and directors as a group.

The percentages in the table have been calculated on the basis of treating as outstanding for a particular person, all shares of our common stock outstanding on December 31, 2002 and all shares of our common stock issuable to that person in the event of the exercise of outstanding options and other derivative securities owned by that person which are exercisable within 60 days of December 31, 2002. Presently, there are no options or derivative securities outstanding. Except as otherwise indicated, the persons listed below have sole

voting and investment power with respect to all shares of our common stock owned by them, except to the extent such power may be shared with a spouse.

Unless otherwise indicated, the address of each beneficial owner is c/o Enertec Electronics Limited, 27 Rechov Ha'Mapilim, Kiriati Ata, Israel, P.O. BOX 497, Kiriati Motzkin 26104, Israel.

<TABLE>  
<CAPTION>

<S> Name and Address of . . . . . Beneficial Owner . . . . .	<C> Number of Shares Beneficially Owned	<C> Percentage Outstanding
Harry Mund	4,750,000	86.63%
Miron Markovitz	9,000	.16%
All directors and executive officers as a group (2 persons)	4,759,000	86.79%

</TABLE>

SELLING STOCKHOLDERS

The following table provides certain information with respect to the beneficial ownership of our common stock known by us as of December 31, 2002 by each selling shareholder. None of the selling stockholders are broker-dealers. The percentages in the table have been calculated on the basis of treating as outstanding for a particular person, all shares of our common stock outstanding on December 31, 2002 and all shares of our common stock issuable to that person in the event of the exercise of outstanding options and other derivative securities owned by that person at December 31, 2002 which are exercisable within 60 days of December 31, 2002. Presently, there are no options or derivative securities outstanding. Except as otherwise indicated, the persons listed below have sole voting and investment power with respect to all shares of our common stock owned by them, except to the extent such power may be shared with a spouse. Amounts shown assume the maximum number of shares being offered are all sold. The shares being offered by the selling stockholders are being registered to permit public secondary trading, and the stockholders may offer all or part of their registered shares for resale from time to time. However, the selling stockholders are under no obligation to sell all or any portion of their shares. The table below assumes that all shares offered by the selling stockholders will be sold. See "Plan of Distribution".

<TABLE>  
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES OFFERED	BENEFICIALLY OWNED		PERCENTAGE OWNERSHIP	
		BEFORE OFFERING	AFTER OFFERING	BEFORE OFFERING	AFTER OFFERING
<S> Claudia Ben-Dor Mitzpe Tel - El House No. 408 P.O Oshrat P.O. Box 25167 Israel	6,000	6,000	0	*	0

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<TABLE>  
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES OFFERED	SHARES OF COMMON STOCK BENEFICIALLY OWNED		PERCENTAGE OWNERSHIP	
		BEFORE OFFERING	AFTER OFFERING	BEFORE OFFERING	AFTER OFFERING
<S> Israel Ben-Dor Mitzpe Tel - El House No. 408 P.O Oshrat P.O. Box 25167	6,000	6,000	0	*	0
Eliaz Bilik Moria Ave. 101/A Haifa 34616 Israel	3,200	3,200	0	*	0
Snir Eitan Parcel 140 Hosen Israel	1,400	1,400	0	*	0
Yael Elipaz 25 Shoham Pts. Haifa Israel	1,400	1,400	0	*	0
Olga Gross Gedaliahy Street 1517 Neveshaanon 32587 Israel	6,000	6,000	0	*	0
Shoshy Inbal Hachzav Street 16/21 Nesher 19234 Israel	1,400	1,400	0	*	0
Barak Koren (12) BAZ 14 Street Karmiel 20100 Israel	1,000	1,000	0	*	0
Eitan Koren (11) BAZ 14 Street Karmiel 20100 Israel	7,000	7,000	0	*	0
Sasson Koren (10) BAZ 14 Street Karmiel 20100 Israel	12,000	12,000	0	*	0

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<TABLE>  
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES OFFERED	SHARES OF COMMON STOCK BENEFICIALLY OWNED		PERCENTAGE OWNERSHIP	
		BEFORE OFFERING	AFTER OFFERING	BEFORE OFFERING	AFTER OFFERING
<S>	<C>	<C>	<C>	<C>	<C>

Shoshana Koren (9) BAZ 14 Street Karmiel 20100 Israel	18,000	18,000	0	*	0
Elliot Kretzmer 3 Chanita Street Kfar Sava Israel	35,000	35,000	0	*	0
Amir Marcovitz (2) 77 Moshe Gorken Street K. Motykin Israel	6,000	6,000	0	*	0
Editha Marcovitz (1) 77 Moshe Gorken Street K. Motykin Israel	9,000	9,000	0	*	0
Miron Marcovitz (1) (2) (3) (4)  77 Moshe Gorken Street K. Motykin Israel	9,000 (5) (6)	9,000	0	*	0
Revital Marcovitz-Mizrachi (6) 16/3 Hativet Haugev Street Modiin Israel	6,000	6,000	0	*	0
Bracha Meirav 64 Haalie Street Haifa Israel	2,600	2,600	0	*	0
Yigal Meirav 64 Haalia Street Haifa Israel	2,600	2,600	0	*	0
Sasson Mizrachi (5) 16/3 Hativet Haugev Street Modiin Israel	6,000	6,000	0	*	0

</TABLE>

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<TABLE>  
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER <S>	NUMBER OF SHARES OFFERED <C>	SHARES OF COMMON STOCK BENEFICIALLY OWNED		PERCENTAGE OWNERSHIP	
		BEFORE OFFERING <C>	AFTER OFFERING <C>	BEFORE OFFERING <C>	AFTER OFFERING <C>
Helena Mund (8) 25 Sinai Street Haifa Israel	16,000	16,000	0	*	0
Simon Mund (7) 25 Sinai Street Haifa Israel	16,000	16,000	0	*	0
Alexander Osztreicher (14) 15/7, Ghedaliahu Haifa 32587 Israel	14,000	14,000	0	*	0
Barak Osztreicher (17) P.O.B. 240 Moledet 19130 Israel	4,000	4,000	0	*	0
Einat Osztreicher (15) P.O.B. 79 Elyashiu	4,000	4,000	0	*	0

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES OFFERED	BEFORE OFFERING	AFTER OFFERING	PERCENTAGE OWNERSHIP BEFORE OFFERING	PERCENTAGE OWNERSHIP AFTER OFFERING
Israel					
Haim Osztreicher (18) P.O.B. 33658 Haifa Israel	6,600	6,600	0	*	0
Klara Osztreicher (13) 15/7, Ghedaliahu Haifa 32587 Israel	14,000	14,000	0	*	0
Lior Osztreicher (16) 7, Hashitim Q. Tivon 36000 Israel	4,000	4,000	0	*	0
Shimon Tregerman Broshim 205 Tal-El 25167 Israel	1,400	1,400	0	*	0
Svetlana Tregerman Broshim 205 Tal-El 25167 Israel	1,400	1,400	0	*	0

</TABLE>

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<TABLE>  
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES OFFERED	SHARES OF COMMON STOCK BENEFICIALLY OWNED		PERCENTAGE OWNERSHIP	
		BEFORE OFFERING	AFTER OFFERING	BEFORE OFFERING	AFTER OFFERING
<S>	<C>	<C>	<C>	<C>	<C>
Margareta Weissman (4) 2/7 Eshkol Street K. Motykin Israel	6,000	6,000	0	*	0
Martin Weissman (3) 2/7 Eshkol Street K. Motykin Israel	6,000	6,000	0	*	0
Fairbain Trading (20) c/o A.P.T. Associates, 19 W. 34th Street, 11th Floor, New York, NY, 10001	150,000	150,000	0	*	0
Global Exploration Equities Inc. (19) c/o A.P.T. Associates, 19 W. 34th Street, 11th Floor, New York, NY, 10001	200,000	200,000	0	*	0
KGL Investments, Ltd. (22) c/o Kaplan Gottbetter & Levenson, LLP 630 Third Avenue, Floor 5 New York, New York 10017	50,000	50,000	0	*	0
Foremost Securities, Ltd (21) c/o A.P.T. Associates, 19 W. 34th Street, 11th Floor, New York, NY, 10001	100,000	100,000	0	*	0

\*Indicates less than one percent of total outstanding common stock

- (1) Miron Marcovitz is married to Edith Marcovitz.
- (2) Amir Marcovitz is the son of Miron Marcovitz.
- (3) Martin Weissman is Miron Marcovitz's father-in-law.
- (4) Margareta Weissman is Miron Marcovitz's mother-in-law.
- (5) Sasson Mizrachi is Miron Marcovitz's son-in-law.
- (6) Revital Mizrachi is Miron Marcovitz's daughter.
- (7) Simon Mund is Harry Mund's father.
- (8) Helena Mund is Harry Mund mother.
- (9) Shoshana Koren is Harry Mund's sister.



- (10) Sasson Koren is Harry Mund's brother-in-law.
- (11) Eitan Koren is Harry Mund's nephew.
- (12) Barak Koren is Harry Mund's nephew.
- (13) Klara Ostreicher is Harry Mund's mother-in-law.
- (14) Alexander Osztreicher is Harry Mund's father-in-law.
- (15) Einat Osztreicher is Harry Mund's niece.
- (16) Lior Osztreicher is Harry Mund's nephew.

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- (17) Barak Osztreicher is Harry Mund's nephew.
- (18) Haim Osztreicher is Harry Mund's brother-in-law.
- (19) Sole beneficial owner of which is David Kretzmer.
- (20) Sole beneficial owner of which is Solomon Krok.
- (21) Sole beneficial owner of which is Samantha Topola Family Trust.
- (22) Beneficial owners of which are Adam S. Gottbetter, Steven Kaplan, and Paul Levenson. Mr. Gottbetter, Mr. Kaplan and Mr. Levenson are partners of Kaplan Gottbetter & Levenson, LLP, counsel to the Company.

#### DESCRIPTION OF SECURITIES

##### GENERAL

Our authorized capital stock currently consists of 100,000,000 shares of common stock, par value \$0.001 per share, and 5,000,000 shares of preferred stock, par value \$0.001 per share, the rights and preferences of which may be established from time to time by our Board of Directors. As at December 31, 2002 there are 5,483,000 shares of our common stock issued and outstanding. No other securities, including without limitation any preferred stock, convertible securities, options, warrants, promissory notes or debentures are outstanding.

All material rights of common and preferred shareholders are discussed below.

##### COMMON STOCK

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of our common stock entitled to vote in any election of directors may elect all of the directors standing for election. Subject to preferences that may be applicable to any shares of preferred stock outstanding at the time, holders of our common stock are entitled to receive dividends ratably, if any, as may be declared from time to time by our board of directors out of funds legally available therefor.

Upon our liquidation, dissolution or winding up, the holders of our common stock are entitled to receive ratably, our net assets available after the payment of:

- all secured liabilities, including any then outstanding secured debt securities which we may have issued as of such time;
- all unsecured liabilities, including any then outstanding unsecured debt securities which we may have issued as of such time; and
- all liquidation preferences on any then outstanding preferred stock.

Holders of our common stock have no preemptive, subscription, redemption or conversion rights, and there are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate and issue in the future.

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As of the date of this prospectus, 94,517,000 shares of our common stock remain unissued. Our board of directors has the power to issue any or all of the remaining common shares for general corporate purposes, without shareholder approval. While we presently have no commitments, contracts or intentions to issue any additional common shares except as otherwise disclosed in this prospectus, potential investors should be aware that any such stock issuances may result in a reduction of the book value of the outstanding common shares. If we issue any additional common shares, such issuance will reduce the proportionate ownership and voting power of each other common shareholder.

##### PREFERRED STOCK

Our board of directors is authorized, without further stockholder approval, to issue up to 5,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions of these shares, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, and to fix the number of shares constituting any series and the designations of these series. These shares will have rights senior to our common stock. The issuance of preferred stock may have the effect

of delaying or preventing a change in our control. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to the holders of common stock or could adversely affect the rights and powers, including voting rights, of the holders of our common stock. At present, we have no plans to issue any shares of our preferred stock.

#### PENNY STOCK RULES

At the present time, there is no public market for our stock. However, Vfinance, a broker-dealer, filed a Form 211 in November 2002, with the National Association of Securities Dealers, Inc. in order to allow for the quotation of our common stock on the OTC Bulletin Board. The quotation of our common stock, however, may not occur.

The Securities Enforcement and Penny Stock Reform Act of 1990 requires special disclosure relating to the trading of any stock defined as a penny stock. Commission regulations generally define a penny stock to be an equity security that has a market price of less than \$5.00 per share and is not listed on The Nasdaq Small Cap Stock Market or a major stock exchange. These regulations subject all broker-dealer transactions involving such securities to special Penny Stock Rules. Following the completion of this offering, the commencement of trading of our common stock, and the foreseeable future thereafter, the market price of our common stock is expected to be substantially less than \$5 per share. Accordingly, should anyone wish to sell any of our shares through a broker-dealer, such sale will be subject to the Penny Stock Rules. These Rules will affect the ability of broker-dealers to sell our shares and will therefore also affect the ability of purchasers in this offering to resell their shares in the secondary market, if such a market should ever develop.

The Penny Stock Rules impose special sales practice requirements on broker-dealers who sell shares defined as a penny stock to persons other than their established customers or accredited investors. Among other things, the Penny Stock Rules require that a broker-dealer make a special suitability determination respecting the purchaser and receive the purchaser's written agreement to the transaction prior to the sale. In addition, the Penny Stock

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Rules require that a broker-dealer deliver, prior to any transaction, a disclosure schedule prepared in accordance with the requirements of the Commission relating to the penny stock market. Disclosure also has to be made about commissions payable to both the broker-dealer and the registered representative and the current quotations for the securities. Finally, monthly statements have to be sent to any holder of such penny stocks disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the rule may affect the ability of broker-dealers to sell our shares and may affect the ability of holders to sell our shares in the secondary market. Accordingly, for so long as the Penny Stock Rules are applicable to our common stock, it may be difficult to trade such stock because compliance with the Penny Stock Rules can delay or preclude certain trading transactions. This could have an adverse effect on the liquidity and price of our common stock.

#### DELAWARE ANTI-TAKEOVER LAW

We are not presently subject to Section 203 of the DGCL and will not become subject to Section 203 in the future unless, among other things, our common stock is (i) listed on a national securities exchange; (ii) authorized for quotation on the NASDAQ Stock Market; or (iii) held of record by more than 2,000 stockholders. If Section 203 should become applicable to us in the future, it could prohibit or delay a merger, takeover or other change in control of our Company and therefore could discourage attempts to acquire us. Section 203 restricts certain transactions between a corporation organized under Delaware law and any person holding 15% or more of the corporation's outstanding voting stock, together with the affiliates or associates of such person (an Interested Stockholder). Section 203 prevents, for a period of three years following the date that a person became an Interested Stockholder, the following types of transactions between the corporation and the Interested Stockholder (unless certain conditions, described below, are met): (a) mergers or consolidations, (b) sales, leases, exchanges or other transfers of 10% or more of the aggregate assets of the corporation, (c) issuances or transfers by the corporation of any stock of the corporation which would have the effect of increasing the Interested Stockholder's proportionate share of the stock of any class or series of the corporation, (d) any other transaction which has the effect of increasing the proportionate share of the stock of any class or series of the corporation which is owned by the Interested Stockholder and (e) receipt by the Interested Stockholder of the benefit (except proportionately as a stockholder) of loans, advances, guarantees, pledges or other financial benefits provided by the corporation.

The three-year ban does not apply if either the proposed transaction or the transaction by which the Interested Stockholder became an Interested Stockholder is approved by the board of directors of the corporation prior to the time such stockholder becomes an Interested Stockholder. Additionally, an Interested

Stockholder may avoid the statutory restriction if, upon the consummation of the transaction whereby such stockholder becomes an Interested Stockholder, the stockholder owns at least 85% of the outstanding voting stock of the corporation without regard to those shares owned by the corporation's officers and directors or certain employee stock plans. Business combinations are also permitted within the three-year period if approved by the board of directors and authorized at an annual or special meeting of stockholders by the holders of at least two-thirds of the outstanding voting stock not owned by the Interested Stockholder. In addition, any transaction is exempt from the statutory ban if it is proposed at a time when the corporation has proposed, and a majority of certain continuing directors of the corporation have approved, a transaction with a party who is

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not an Interested Stockholder (or who becomes such with approval of the board of directors) if the proposed transaction involves (a) certain mergers or consolidations involving the corporation, (b) a sale or other transfer of over 50% of the aggregate assets of the corporation, or (c) a tender or exchange offer for 50% or more of the outstanding voting stock of the corporation.

#### DIVIDEND POLICY

We have never paid any dividends on our common stock. We do not intend to declare or pay dividends on our common stock, but to retain our earnings for the operation and expansion of our business. Dividends will be subject to the discretion of our board of directors and will be contingent on future earnings, our financial condition, capital requirements, general business conditions and other factors as our board of directors deem relevant.

#### MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Before this offering, there has been no public market for our common stock and a public market for our common stock may not develop after this offering. We anticipate that our common stock will be traded on the OTC Bulletin Board, but this may not occur. VFinance, a broker-dealer, filed a Form 211 in November 2002, with the National Association of Securities Dealers, Inc. in order to allow for the quotation of our common stock on the OTC Bulletin Board. There is no arrangement between us and VFinance.

Prior to this offering, we have 5,483,000 shares of common stock issued and outstanding held by approximately 36 persons. A total of 733,000 shares will be offered by the Selling Stockholders.

#### TRANSFER AGENT

Continental Stock Transfer & Trust Company, 17 Battery Place, New York, NY 10004, will act as the Transfer Agent for our common stock.

#### PLAN OF DISTRIBUTION

The selling stockholders may, from time to time, sell any or all of their shares of common stock covered by this prospectus on any stock exchange, market or trading facility on which the shares are then traded or in private transactions at a price of \$.15 per share until our shares are quoted on the Over the Counter Bulletin Board ("OTCBB") and thereafter at prevailing market prices or privately negotiated prices. The term "selling stockholders" includes donees, pledgees, transferees or other successors-in-interest selling shares received after the date of this prospectus from a selling stockholder as a gift, pledge, partnership distribution or other non-sale related transfer. We will pay the expense incurred to register the shares being offered by the selling stockholders for resale, but the selling stockholders will pay any underwriting discounts and brokerage commissions associated with these sales. The commission or discount which may be received by any member of the National Association of Securities Dealers, Inc. in connection with these sales will not be greater than 8%. The selling stockholders may use any one or more of the following methods when selling shares:

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- a. ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- b. block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- c. purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- d. privately negotiated transactions; and
- e. a combination of any such methods of sale.

In addition, any shares that qualify for sale under Rule 144 may be sold under Rule 144 rather than through this prospectus.

The \$.15 per share offering price of the common stock being sold under this prospectus has been arbitrarily set. The price does not bear any relationship to our assets, book value, earnings or net worth and it is not an indication of actual value. Additionally, the offering price of our shares is higher than the price paid by our founder, and exceeds the per share value of our net tangible assets. Therefore, if you purchase shares in this offering, you will experience immediate and substantial dilution. You may also suffer additional dilution in the future from the sale of additional shares of common stock or other securities, if the need for additional financing forces us to make such sales. Investors should be aware of the risk of judging the real or potential future market value, if any, of our common stock by comparison to the offering price.

In offering the shares covered by this prospectus, the selling stockholders and any broker-dealers who execute sales for the selling stockholders may be deemed to be an "underwriter" within the meaning of the Securities Act in connection with such sales. Any profits realized by the selling stockholders and the compensation of any broker-dealer may be deemed to be underwriting discounts and commissions.

Selling shareholders will be able to sell their shares in all 50 states in the U.S. We will apply to the Standard and Poor's Editorial Board to be listed in its corporation records. The Standard and Poor's Corporation Records is a recognized securities manual for "blue sky" or "manual exemption" trading in approximately 35 states. The remaining states have self-executing securities registration exemptions. The listing should assist the brokerage community in making a market for the Company's stock. It is recommended, however, that brokers check with the blue sky laws in their particular state.

Each selling stockholder and any other person participating in a distribution of securities will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including, without limitation, Regulation M, which may restrict certain activities of, and limit the timing of purchases and sales of securities by, selling stockholders and other persons participating in a distribution of securities. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the

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commencement of such distributions, subject to specified exceptions or exemptions. All of the foregoing may affect the marketability of the securities offered hereby.

Any securities covered by this prospectus that qualify for sale pursuant to Rule 144 under the Securities Act may be sold under that rule rather than pursuant to this prospectus.

This offering will terminate on the earlier of (i) the date that all shares offered by this prospectus have been sold by the selling shareholders, (ii) twenty-four (24) months from the effective date of the Registration Statement on Form SB-2 that we have filed with the SEC, or (iii) the date all of the selling shareholders may sell all of the shares described herein without restriction pursuant to Rule 144 of the Securities Act.

#### SHARES ELIGIBLE FOR FUTURE SALE

As of December 31, 2002 we had 5,483,000 shares of common stock issued and outstanding. Of these shares, the 733,000 shares that can be sold in this offering by the Selling Stockholders will be freely tradable without restriction or further registration under the Securities Act.

In general, under Rule 144, a person or persons whose shares are required to be aggregated, who has beneficially owned shares of common stock for a period of one year, including a person who may be deemed an affiliate, is entitled to sell, within any three-month period, a number of shares not exceeding 1% of the total number of outstanding shares of such class. A person who is not an affiliate of ours and who has beneficially owned shares for at least two years is entitled to sell such shares under Rule 144 without regard to the volume limitations described above. Under Rule 144, an affiliate of an issuer is a person that directly or indirectly through the use of one or more intermediaries controls, is controlled by, or is under common control with, such issuer.

If a public market develops for our common stock, we are unable to predict the effect that sales made under Rule 144 or other sales may have on the then prevailing market price of our common stock. None of our presently outstanding shares of Common Stock will be eligible for sale under Rule 144 prior to April, 2003.

#### COMMISSION POSITION ON INDEMNIFICATION

Our Certificate of Incorporation limits, to the maximum extent permitted under Delaware law, the personal liability of our directors and officers for monetary damages for breach of their fiduciary duties as directors and officers,

except in certain circumstances involving certain wrongful acts, such as a breach of the director's duty of loyalty or acts of omission which involve intentional misconduct or a knowing violation of law.

Section 145(a) of the General Corporation Law of Delaware ("GCL") permits a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

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Under Section 145(b) of the GCL, a corporation also may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to the best interests of the corporation. However, in such an action by or on behalf of a corporation, no indemnification may be in respect of any claim, issue or matter as to which the person is adjudged liable to the corporation unless and only to the extent that the court determines that, despite the adjudication of liability but in view of all the circumstances, the person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

In addition, under Section 145(f) of the GCL, the indemnification provided by Section 145 shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

We will not indemnify our directors and officers (a) for any breach of loyalty to us or our stockholders; (b) if a director or officer does not act in good faith; (c) for acts involving intentional misconduct; (d) for acts or omissions falling under Section 174 of the DGCL; or (e) for any transaction for which the director or officer derives an improper personal benefit. We will indemnify our directors and officers for expenses related to indemnifiable events, and will pay for these expenses in advance. Our obligation to indemnify and to provide advances for expenses are subject to the approval of a review process with a reviewer to be determined by the Board. The rights of our directors and officers will not exclude any rights to indemnification otherwise available under law or under our Certificate of Incorporation.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by a director, officer or controlling person of ours in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Article X of our By-laws, on indemnification provides as follows:

"Any person who at any time serves or has served as a director or officer of the Corporation, or in such capacity at the request of the

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Corporation for any other foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or as trustee or administrator under an employee benefit plan, shall have a right to be indemnified by the Corporation to the fullest extent permitted by law against (a) reasonable expenses, including attorneys' fees, actually and necessarily incurred by

him in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, and whether or not brought by or on behalf of the Corporation, seeking to hold him liable by reason of the fact that he is or was acting in such capacity, and (b) reasonable payments made by him in satisfaction of any judgment, money decree, fine, penalty or settlement for which he may have become liable in any such action, suit or proceeding.

To the extent permitted by law, expenses incurred by a director or officer in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding, upon receipt of an undertaking by or on behalf of such director or officer to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified hereunder by the Corporation.

If a person claiming a right to indemnification under this Section obtains a non-appealable judgment against the Corporation requiring it to pay substantially all of the amount claimed, the claimant shall be entitled to recover from the Corporation the reasonable expense (including reasonable legal fees) of prosecuting the action against the Corporation to collect the claim.

Notwithstanding the foregoing provisions, the Corporation shall indemnify or agree to indemnify any person against liability or litigation expense he may incur if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, if he had no reasonable cause to believe his action was unlawful.

The Board of Directors of the Corporation shall take all such action as may be necessary and appropriate to authorize the Corporation to pay the indemnification required by this Bylaw, including without limitation, to the extent needed, making a good faith evaluation of the manner in which the claimant for indemnity acted and of the reasonable amount of indemnity due him and giving notice to, and obtaining approval by, the stockholders of the Corporation.

Any person who at any time after the adoption of this Bylaw serves or has served in any of the aforesaid capacities for or on behalf of the Corporation shall be deemed to be doing or to have done so in reliance upon, and as consideration for, the right of indemnification provided herein. Such right shall inure to the benefit of the legal representatives of any such person and shall not be exclusive of any other rights to which such person may be entitled apart from the provision of this Bylaw.

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Unless otherwise provided herein, the indemnification extended to a person that has qualified for indemnification under the provisions of this Article X shall not be terminated when the person has ceased to be a director, officer, employee or agent for all causes of action against the indemnified party based on acts and events occurring prior to the termination of the relationship with the Corporation and shall inure to the benefit of the heirs, executors and administrators of such person."

#### LEGAL MATTERS

Kaplan Gottbetter & Levenson, LLP has rendered an opinion as our counsel, that the shares offered hereby will be legally issued, fully paid and nonassessable. The partners of Kaplan Gottbetter & Levenson, LLP own 50,000 shares of our common stock through KGL Investments, Ltd.

#### EXPERTS

The financial statements included in this prospectus, and elsewhere in the registration statement as of December 31, 2000 and 2001 have been audited by Gvilli and Co., certified public accountants, as indicated in their report with respect thereto, and are included in this prospectus in reliance upon the authority of said firm as experts in accounting and auditing in giving said report.

#### ADDITIONAL INFORMATION

We have not previously been required to comply with the reporting requirements of the Securities Exchange Act. We have filed with the SEC a registration statement on Form SB-2 to register the securities offered by this prospectus. The prospectus is part of the registration statement, and, as permitted by the SEC's rules, does not contain all of the information in the registration statement. For future information about us and the securities offered under this prospectus, you may refer to the registration statement and to the exhibits and schedules filed as a part of the registration statement.

In addition, after the effective date of this prospectus, we will be required to file annual, quarterly, and current reports, or other information

with the SEC as provided by the Securities Exchange Act. You may read and copy any reports, statements or other information we file at the SEC's public reference facility maintained by the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our SEC filings are also available to the public through the SEC Internet site at [http\www.sec.gov](http://www.sec.gov).

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INDEX TO FINANCIAL STATEMENTS  
LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of Lapis Technologies, Inc. as of December 31, 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for the two years 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 on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lapis Technologies, Inc. and Subsidiary as of December 31, 2000, and the results of its operations and its cash flows for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Gvilli & Co.

April 29, 2002  
Tel Aviv, Israel

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
(In Thousands, Except Share Amounts)

<TABLE>  
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ASSETS

	December 31, 2001 ----	September 30, 2002 ----
		(Unaudited)
<S>	<C>	<C>
Current Assets:		
Cash and cash equivalents. . . . .	\$ 86	\$ 82
Accounts receivable. . . . .	739	1,428
Inventory. . . . .	1,111	1,151
Prepaid expenses and other current assets. . . . .	297	116
	-----	-----
Total current assets . . . . .	2,233	2,777
Property and equipment, net of accumulated depreciation and amortization of \$162 and \$164, respectively . . . . .		
	256	72
Investment, at equity. . . . .	-	8
Due from shareholder . . . . .	687	222
Due from affiliates. . . . .	199	385
Deferred offering costs. . . . .	-	94
Deferred income taxes. . . . .	30	30
	-----	-----
	\$ 3,405	\$ 3,588
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Current portion of long-term debt. . . . .	\$ 1,421	\$ 1,112
Accounts payable and accrued liabilities . . . . .	1,339	1,014
	-----	-----
Total current liabilities. . . . .	2,760	2,126
Long-term debt, net of current portion . . . . .		
	159	949
Severance payable. . . . .	90	81
	-----	-----
	3,009	3,156
	-----	-----
Commitments and contingencies (See Note 11)		
Stockholders' Equity:		
Preferred stock, \$.001 par value, 5,000,000 shares authorized; none outstanding. . . . .	-	-
Common stock, \$.001 par value; 100,000,000 shares authorized; 4,750,000 and 5,483,000 shares issued and outstanding, respectively . . . . .	5	5
Additional paid in capital . . . . .	(5)	(124)
Retained earnings. . . . .	472	449
Accumulated other comprehensive loss . . . . .	(76)	(112)
Subscription receivable. . . . .	-	(34)
	-----	-----
Total stockholders' equity . . . . .	396	432
	-----	-----
	\$ 3,405	\$ 3,588
	=====	=====

<FN>  
See Notes to Consolidated Financial Statements.  
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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
(In Thousands, Except Earnings Per Share and Share Amounts)



	Years Ended December 31,		Nine-Months Ended September 30,	
	2001	2000	2002	2001
<S>	<C>	<C>	<C>	(Unaudited) <C>
Sales . . . . .	\$ 4,254	\$ 5,813	\$ 3,491	\$ 3,446
Cost of sales . . . . .	2,924	3,875	1,962	1,800
Gross profit. . . . .	1,330	1,938	1,529	1,646
Operating Expenses:				
Selling expenses. . . . .	94	42	47	31
General and administrative. . .	1,068	988	811	1,368
Total Operating Expenses. . .	1,162	1,030	858	1,399
Operating Income. . . . .	168	908	671	247
Other Income (Expense):				
Interest expenses, net. . . . .	(141)	(113)	(180)	(84)
Other income. . . . .	2	3	49	2
Equity in operations of investee.	-	-	8	-
Total other income (expense).	(139)	(110)	(123)	(82)
Income before provision for income taxes. . . . .	29	798	548	165
Provision for income taxes. . . .	19	293	162	-
Net income. . . . .	\$ 10	\$ 505	\$ 386	\$ 165
Earnings per share. . . . .	*	\$ .11	\$ .08	\$ .03
Weighted average common shares outstanding. . . . .	4,750,000	4,750,000	5,128,868	4,750,000

<FN>

\* Per share amount is less than \$.01.

See Notes to Consolidated Financial Statements.

</TABLE>

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)  
DECEMBER 31, 1999 To SEPTEMBER 30, 2002  
(In Thousands, Except Share Amounts)

	Common Stock		Additional Paid In Capital	Retained Earnings	Other Comprehensive Loss	Subscription Receivable	Total Stockholders's Equity
	Shares	Amount					
Comprehensive Income (Loss)							
-							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>							
Balance, December 31, 1999 . . .	4,750,000	\$ 5	\$ (5)	\$ 288	\$ (47)	\$ -	\$ 241
Dividend paid. . . . .	-	-	-	(331)	-	-	(331)
Comprehensive income . . . . .	-	-	-	-	9	-	9

\$	9							
Net income . . . . .	-	-	-	505	-	-	-	505
505								
-----								
Balance, December 31, 2000 . . .	4,750,000	5	(5)	462	(38)	-	-	424
\$	514							
=====								
Comprehensive loss . . . . .	-	-	-	-	(38)	-	-	(38)
\$	(38)							
Net income . . . . .	-	-	-	10	-	-	-	10
10								
-----								
Balance, December 31, 2001 . . .	4,750,000	5	(5)	472	(76)	-	-	396
\$	(28)							
=====								
Common stock for services (Unaudited) . . . . .	500,000	-	(50)	-	-	-	-	50
Common stock issued in connection with the private placement (Unaudited) . . . . .	233,000	-	(35)	-	-	(34)	-	1
Recapitalization (Unaudited) . .	-	-	44	-	-	-	-	44
Dividend paid (Unaudited) . . .	-	-	-	(409)	-	-	-	(409)
Comprehensive (loss) (Unaudited) \$	(36)				(36)			(36)
Net income (Unaudited) . . . . .	-	-	-	386	-	-	-	386
386								
-----								
Balance, September 30, 2002 (Unaudited) . . . . .	5,483,000	\$	5	\$	(124)	\$	449	\$
\$	350							(112)
								\$
								(34)
								\$
								432
=====								

<FN>

See Notes to Consolidated Financial Statements.

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

	Years Ended		Nine-Months Ended	
	December 31,	December 31,	September 30,	September 30,
	2001	2000	2002	2001
			(Unaudited)	
	<C>	<C>	<C>	<C>
Cash flows from operating activities:				
Net income . . . . .	\$ 10	\$ 505	\$ 386	\$ 165
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization . . . . .	55	47	30	-
Common stock issued for services . . . . .	-	-	50	-
Recapitalization . . . . .	-	-	44	-
(Gain) loss on sale of property and equipment . . . . .	-	-	(24)	59
Equity in operations of investee . . . . .	-	-	(8)	-
Change in operating assets and liabilities:				
Accounts receivable . . . . .	891	(728)	(689)	286
Inventory . . . . .	(506)	(309)	(40)	(159)
Prepaid and other current assets . . . . .	(343)	54	181	(267)
Due from shareholder . . . . .	(419)	(87)	465	(244)
Due from affiliates . . . . .	(179)	3	(186)	20
Deferred offering costs . . . . .	-	-	(94)	-
Deferred income tax . . . . .	-	(20)	-	-

Accounts payable and accrued expenses . . .	(214)	151	(324)	(276)
Severance payable	32	30	(9)	(4)
	-----	-----	-----	-----
Net cash used in operating activities . . . .	(673)	(354)	(218)	(420)
	-----	-----	-----	-----
Cash flows from investing activities:				
Proceeds from sale of property and equipment . . . . .	83	-	177	-
Purchases of property and equipment . . . .	-	(101)	-	(68)
	-----	-----	-----	-----
Net cash provided by (used in) investing activities . . . . .	83	(101)	177	(68)
	-----	-----	-----	-----
Cash flows from financing activities:				
Proceeds from the issuance of Common stock . . . . .	-	-	1	-
Proceeds of long-term debt . . . . .	70	100	481	-
Repayment of long-term debt . . . . .	-	(73)	-	(91)
Revolving line of credit, net . . . . .	603	673	-	615
Dividends paid . . . . .	-	(331)	(409)	-
	-----	-----	-----	-----
Net cash provided by financing activities . . . . .	673	369	73	524
	-----	-----	-----	-----
Effect of exchange rate changes on cash and cash equivalents . . . . .	(4)	2	(36)	(38)
	-----	-----	-----	-----
Increase (decrease) in cash and cash equivalents . . . . .	79	(84)	(4)	(2)
Cash and cash equivalents, beginning of period . . . . .	7	91	86	7
	-----	-----	-----	-----
Cash and cash equivalents, end of period . . . . .	\$ 86	\$ 7	\$ 82	\$ 5
	=====	=====	=====	=====

See Notes Consolidated Financial Statements.

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

	Years Ended		Nine-Months Ended	
	December 31,		September 30,	
	2001	2000	2002	2001
	-----	-----	-----	-----
			(Unaudited)	
<S>	<C>	<C>	<C>	<C>
Supplemental disclosure of cash flow information:				
Cash paid during the period for				
Interest . . . . .	\$ 144	\$ 113	\$ 81	\$ 85
	=====	=====	=====	=====
Income taxes . . . . .	\$ 193	\$ 231	\$ 364	\$ 154
	=====	=====	=====	=====
Supplemental disclosure of non-cash financing activity:				
Common stock issued for services . .	\$ -	\$ -	\$ 50	\$ -
	=====	=====	=====	=====
Common stock issued by subscription.	\$ -	\$ -	\$ 35	\$ -
	=====	=====	=====	=====

<FN>

See Notes Consolidated Financial Statements.

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (All information pertaining to the Nine-Months Ended  
 September 30, 2002 and 2001 is Unaudited)  
 (In Thousands, Except Share and Per Share Amounts)

NOTE 1 -DESCRIPTION OF BUSINESS, ACQUISITION AND CONTINUING OPERATIONS

Lapis Technologies, Inc. (the "Company" or "Lapis") was incorporated in the State of Delaware on January 31, 2002. On April 23, 2002, the Company changed its name from Enertec Electronics, Inc. to Opal Technologies, Inc. and on October 17, 2002, changed its name to Lapis Technologies, Inc. The Company's operations are conducted through Enertec Electronics Ltd. ("Enertec"). Enertec is engaged in the manufacturing and distribution 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 April 26, 2002 Opal (now Lapis) acquired 100% of the outstanding common stock of Enertec (the "Merger"). Although Lapis is the legal survivor in the Merger, under accounting principles generally accepted in the United States of America the Merger was accounted for as a reverse acquisition, whereby Enertec is considered the "acquirer" of Lapis for financial reporting purposes as Enertec's stockholder's controlled more than 50% of the post Merger combined entity. Among other matters, this requires Lapis to present in all financial statements and other public information filings, from the date of completion of the Merger, prior historical financial statements and other information of Enertec. It also requires a retroactive restatement of Enertec's historical stockholders' equity to reflect the equivalent number of shares of common stock received in the Merger.

The accompanying consolidated financial statements present the results of operations of Enertec for the nine-months ended September 30, 2002 and 2001 and reflect the acquisition of Lapis on April 26, 2002 under the purchase method of accounting. Subsequent to April 26, 2002 the operations of the Company reflect the combined operations of Enertec and Lapis. The consolidated financial statements include the accounts of Enertec since inception. All material intercompany accounts and transactions have been eliminated in consolidation.

The financial information included herein as of September 30, 2002 and for the nine-months ended September 30, 2002 and 2001 is unaudited. Such information reflects all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows of the interim periods. The results of operations for the nine-months ended September 30, 2002 and 2001 are not necessarily indicative of the results for the full year.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (All information pertaining to the Nine-Months Ended  
 September 30, 2002 and 2001 is Unaudited)  
 (In Thousands, Except Share and Per Share Amounts)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 purchases to be cash equivalents.

Inventory

Inventory is 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 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

#### Investment

An investment where the Company owns 20% or more but 50% or less of the voting stock of another entity are recorded using the equity method. Under this method the initial investment is recorded at cost. Subsequently, the investment is increased or decreased to reflect the Company's share of income, losses and dividends actually paid.

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(All information pertaining to the Nine-Months Ended  
September 30, 2002 and 2001 is Unaudited)  
(In Thousands, Except Share and Per Share Amounts)

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

##### Deferred offering costs

Deferred offering costs represent costs attributable to a private placement. The Company intends to offset these costs against the proceeds from this transaction. In the event that such transaction is not completed, these costs will be charged to operations.

##### Income Taxes

The Company uses the liability method 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 necessary to reduce deferred tax assets to the amount expected to be realized.

##### Revenue Recognition

Revenue is recorded as product is shipped, the price has been fixed or determined, collectability is reasonable assured and all material specific performance obligations have been completed. The Company provides a one year warranty on all products sold. The cost is charged to operations when the warranty is exercised. 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 financial statements and are recorded as an adjustment to sales.

Revenue relating to product service contracts is recognized ratably over the life of the agreement, generally one year.

##### 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, issue No. 00-10, "Accounting for Shipping and Handling Costs."

##### Research and Development Costs

Research and development costs are charged to general and administrative expense when incurred in the accompanying statement of income and consists

of salaries. For the years ended December 31, 2001 and 2000 research and development costs were approximately \$200 and \$100, respectively. For the nine-months ended September 30, 2002 and 2001 research and development costs were approximately \$145 and \$88, respectively.

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(All information pertaining to the Nine-Months Ended  
September 30, 2002 and 2001 is Unaudited)  
(In Thousands, Except Share Amounts)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Earnings Per Share

The Company presents basic earnings (loss) 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 (loss) per share is computed by dividing the net earnings (loss) for the period by the weighted average number of shares outstanding during the period. Diluted net earnings per share is computed by dividing the net earnings for the period by the weighted average number of common share equivalents during the period. Common stock equivalents would arise from the exercise of stock options. Through September 30, 2002 the Company has not issued any stock options.

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. At December 31, 2001 and September 30, 2002, the Company believes that there has been no impairment of its long-lived assets.

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement is effective for fiscal years beginning after December 15, 2001. This supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of," while retaining many of the requirements of such statement. The Company has adopted this Statement as of January 1, 2002.

Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, approximate fair value at December 31, 2001 and September 30, 2002 because of the relatively short maturity of the instruments. The Investment is recorded using the equity method and is considered at fair value because there is no prevailing market value for this investment and it is not practical to estimate without incurring excessive cost. The carrying value of the long-term debt approximate fair value as of December 31, 2001 and September 30, 2002 based upon debt terms available for companies under similar terms.

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(All information pertaining to the Nine-Months Ended  
September 30, 2002 and 2001 is Unaudited)  
(In Thousands, Except Share Amounts)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Comprehensive Income (Loss)

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

#### Foreign Currency Translation and Transactions

Assets and liabilities of Enertec are translated at current exchange rates and related revenues and expenses are translated at average exchange rates in effect during the period. Resulting translation adjustments, if material, are recorded as accumulated other comprehensive income (loss) in stockholders' equity. Foreign currency transaction gains and losses are included in operations.

#### 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.

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(All information pertaining to the Nine-Months Ended  
September 30, 2002 and 2001 is Unaudited)  
(In Thousands, Except Share Amounts)

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

##### New Accounting Pronouncements

In July 2001 the FASB issued SFAS No. 141, "Business Combinations" ("SFAS 141"). SFAS 141 requires the purchase method of accounting for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interest method. SFAS 141 further clarifies the criteria for recognition of intangible assets separately from goodwill.

In July 2001 the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142"). SFAS 142 eliminates the amortization of goodwill and indefinite lived intangible assets and initiates an annual review for impairment. Identifiable intangible assets with determinable useful lives will continue to be amortized. The Company adopted this Statement as of January 1, 2002 and management does not believe that this Statement will have a material impact on the financial statements.

In June 2001 the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company will adopt this Statement effective January 1, 2003 and management does not believe that this Statement will have a material impact on the financial statements.

In July 2002 the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," ("SFAS 146"). SFAS 146 is effective for exit and disposal activities that are initiated after December 31, 2002 and requires these costs to be recognized when the liability is incurred and not at project initiation. The Company does not expect this Statement to have a material impact on the financial statements.

Management does not believe that recently issued, but not yet effective accounting pronouncements if currently adopted would have a material effect on the accompanying financial statements.

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(All information pertaining to the Nine-Months Ended  
September 30, 2002 and 2001 is Unaudited)  
(In Thousands, Except Share Amounts)

NOTE 3 - INVENTORY

Inventory consisted of the following:

<TABLE>  
<CAPTION>

	December 31, 2001	September 30, 2002
	-----	-----
		(Unaudited)
<S>	<C>	<C>
Raw materials . . . . .	\$ 363	\$ 260
Finished goods . . . . .	748	891
	-----	-----
	\$ 1,111	\$1,151
	=====	=====

</TABLE>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

<TABLE>  
<CAPTION>

	December 31, 2001	September 30, 2002
	-----	-----
		(Unaudited)
<S>	<C>	<C>
Leasehold improvements . . . . .	\$ 55	\$ 21
Machinery and equipment . . . . .	22	22
Furniture and fixtures . . . . .	109	49
Transportation equipment . . . . .	144	76
Computer equipment . . . . .	88	68
	-----	-----
	418	236
Accumulated depreciation and amortization . . . . .	(162)	(164)
	-----	-----
	\$ 256	\$ 72
	=====	=====

</TABLE>

NOTE 5 - INVESTMENT

As of January 1, 2002 Enertec, through a wholly owned subsidiary, established a 25% investment in Enertec Systems 2001 LTD ("Systems"). Systems is engaged in test equipment and simulators for electronic plants. This investment is being accounted for under the equity method. An officer and majority stockholder of the Company owns 27% of Systems. As of September 30, 2002 Systems had total assets of \$1,535 and for the nine months then ended had revenues of \$1,214 and net income of \$31. All of this entity's activities are conducted in the State of Israel. This entity was not in operations prior to 2002.

NOTE 6 - INCOME TAXES

The provision for income taxes consisted of the following:

<TABLE>  
<CAPTION>



	Year Ended December 31, -----		Nine-Months Ended September 30, -----	
	2001	2000	2002	2001
	-----	-----	-----	-----
(Unaudited)				
<S>	<C>	<C>	<C>	<C>
Current:				
Federal .	\$ -	\$ -	\$ -	\$ -
State . .	-	-	-	-
Foreign .	19	313	162	-
	-----	-----	-----	-----
	19	313	162	-
	-----	-----	-----	-----
Deferred:				
Federal .	-	-	-	-
State . .	-	-	-	-
Foreign .	-	(20)	-	-
	-----	-----	-----	-----
	-	(20)	-	-
	-----	-----	-----	-----
	\$ 19	\$ 293	\$ 162	\$ -
	=====	=====	=====	=====

</TABLE>

Deferred tax assets are classified as current or non-current, according to the classification of the related asset or liability for financial reporting. The deferred tax asset consists of timing differences relating to severance payable. The Company has not recorded a valuation allowance as it is more likely than not that the timing differences will be utilized.

The deferred income tax asset and income tax expense for all periods shown is a result of the operations of Enertec, which operates in the State of Israel.

NOTE 7 - LONG-TERM DEBT

Long-term debt consisted of the following:

	December 31, 2001 -----	September 30, 2002 -----
		(Unaudited)
<S>	<C>	<C>
Bank line of credit	\$1,421	\$1,112
Term loan . . . . .	159	949
	-----	-----
Total long-term debt .	1,580	2,061
Less: current portion.	1,421	1,112
	-----	-----
	\$ 159	\$ 949
	=====	=====

</TABLE>

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(All information pertaining to the Nine-Months Ended  
September 30, 2002 and 2001 is Unaudited)  
(In Thousands, Except Share Amounts)

NOTE 8 - SEVERANCE PAYABLE, NET

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 - EQUITY TRANSACTIONS

During April 2002, the Company issued 4,750,000 shares of its common stock to Harry Mund in exchange for the transfer of 100% of the common stock of Enertec Electronics LTD.

On April 26, 2002 the Company issued 150,000, 200,000, and 100,000 shares of its common stock to Fairbain Trading S.A., Global Exploration Equities, Inc. and Foremost Securities Limited, respectively, in exchange for services provided in connection with the Company's corporate organization. The Company valued these shares at \$.10 per share.

On April 26, 2002 the Company issued 50,000 shares of its common stock to KGL Investments, Ltd., the beneficial owner of which is the partners of Kaplan Gottbetter & Levenson, council to the Company. The shares were issued for legal services and valued at \$.10 per share.

NOTE 10 - PRIVATE PLACEMENT

On June 4, 2002 the Company offered investors up to 233,000 shares of its common stock at a price of \$.15 per share. The Company recorded a subscription receivable of \$35 and as of September 30, 2002 the Company had collected \$1. The balance of the subscription receivable was collected during October 2002.

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (All information pertaining to the Nine-Months Ended  
 September 30, 2002 and 2001 is Unaudited)  
 (In Thousands, Except Share Amounts)

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Company has several supply agreements with various customers totaling approximately \$3,800. The agreements are from one to two years in duration.

Orckit Communications, a customer, has brought an action in the Tel Aviv District Court for an unspecified monetary amount against Gaia Converter, one of the Company's suppliers, Alcyon Production System, a subcontractor of Gaia Converter, and Enertec, 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 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 Orckit regarding the suitability of its converters. 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 - SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in one business segment which includes the distribution of power supplies, converters and related power conversion products and the manufacture of automatic test equipment and simulators. The Company conducts operations primarily in Israel, which is the location of all of the Company's sales. Information about the Company's assets in different geographic locations as of December 31, 2001 and September 30, 2002 is shown below pursuant to the provisions of SFAS 131, "Disclosures About Segments of an Enterprise and Related Information."

<TABLE>  
 <CAPTION>

	December 31, 2001 -----	September 30, 2002 -----
		(Unaudited)
<S>	<C>	<C>
Total assets:		
Israel . . . .	\$3,405	\$3,493
United States:	-	95

-----	-----
\$3,405	\$3,588
=====	=====

</TABLE>

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (All information pertaining to the Nine-Months Ended  
 September 30, 2002 and 2001 is Unaudited)  
 (In Thousands, Except Share Amounts)

NOTE 13 - CONCENTRATIONS

The Company had deposits with commercial financial institutions which, at times, may exceed the FDIC insured limits of \$100,000. Management has placed these funds in high quality institutions in order to minimize the risk. Cash held in Israel as of December 31, 2001 and September 30, 2002 was \$86 and \$81, respectively.

As of December 31, 2001, the Company had two customers that accounted for approximately 20% of the accounts receivable. As of September 30, 2002 the Company had one customer that accounted for 54% of accounts receivable. During the years ended December 31, 2001 and 2000 approximately 85% and 50%, respectively, of the Company's sales were to three and two customers, respectively. For the nine-months ended September 30, 2002 and 2001 approximately 80% of the Company's sales were to three and two customers, respectively.

NOTE 14 - SUBSEQUENT EVENTS

Stock Option Plan

The Company adopted a 2002 Stock Option Plan (the "Plan") during October 2002. 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 all employees and officers of the Company or any subsidiary of the Company. The non-statutory stock options can be granted to all employees, non-employee directors, and consultants of the Company. The number of shares of common stock reserved for issuance under the Plan is 500,000, subject and adjustment in the event of a stock split, stock dividend, recapitalization or similar change in the Company's capital structure.

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. 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.

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (All information pertaining to the Nine-Months Ended  
 September 30, 2002 and 2001 is Unaudited)  
 (In Thousands, Except Share Amounts)

NOTE 14 - SUBSEQUENT EVENTS - continued

The Board of Directors may grant options with a reload feature ("Reload Options"). Option holders granted a Reload Option shall receive contemporaneously with the payment of the option price in shares of common

stock a right to purchase that number of shares of the Company's common stock equal to the sum of (i) the number of shares of the Company's common stock used to exercise the option and (ii) with respect to non-statutory stock options the number of shares of the Company's common stock used to satisfy any tax withholding requirement incident to the exercise of such non-statutory stock options. The option price for Reload Options shall be the fair market value of a share of the Company's common stock at the date of grant. For Principal Stockholders the option price for Reload Options shall be 110% of the fair market value of a share of the Company's common stock at the date of grant. The Company has not issued any options under this plan.

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No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in this prospectus in connection with the offer made hereby. If given or made, such information or representation must not be relied upon as having been authorized by us. This prospectus does not constitute an offer to any person in any jurisdiction in which such an offer would be unlawful. Neither the delivery of this prospectus nor any sale made hereunder shall under any circumstances create any implication that the information contained throughout this prospectus is correct as of any time subsequent to the date hereof.

733,000 Shares

LAPIS TECHNOLOGIES, INC.

PROSPECTUS

\_\_\_\_\_, 2003

Until \_\_\_\_\_, 2003 (\_\_ days from the date of this prospectus), all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriter and with respect to their unsold allotments or subscriptions.

#### PART II

#### ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Our Certificate of Incorporation limits the liability of our directors and officers to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for: (i) breach of the directors' duty of loyalty; (ii) acts or omissions not in good

faith or which involve intentional misconduct or a knowing violation of the law, (iii) the unlawful payment of a dividend or unlawful stock purchase or redemption, and (iv) any transaction from which the director derives an improper personal benefit. Delaware law does not permit a corporation to eliminate a director's duty of care, and this provision of our Certificate of Incorporation has no effect on the availability of equitable remedies, such as injunction or rescission, based upon a director's breach of the duty of care.

The effect of the foregoing is to require us to indemnify our officers and directors for any claim arising against our directors and officers in their official capacities if such person acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

INSOFAR AS INDEMNIFICATION FOR LIABILITIES MAY BE PERMITTED TO OUR DIRECTORS, OFFICERS AND CONTROLLING PERSONS PURSUANT TO THE FOREGOING PROVISIONS, OR OTHERWISE, WE HAVE BEEN ADVISED THAT IN THE OPINION OF THE SECURITIES AND EXCHANGE COMMISSION THIS TYPE OF INDEMNIFICATION IS AGAINST PUBLIC POLICY AND IS, THEREFORE, UNENFORCEABLE.

#### CORPORATE TAKEOVER PROVISIONS

##### Section 203 of the Delaware General Corporation Law

We are not presently subject to the provisions of Section 203 of the Delaware General Corporation Law (Section 203). Under Section 203, certain business combinations between a Delaware corporation whose stock generally is publicly traded or held of record by more than 2,000 stockholders and an interested stockholder are prohibited for a three-year period following the date that such stockholder became an interested stockholder, unless (i) the corporation has elected in its original certificate of incorporation not to be governed by Section 203 (we did not make such an election) (ii) the business combination was approved by the Board of Directors of the corporation before the other party to the business combination became an interested stockholder (iii) upon consummation of the transaction that made it an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the commencement of the transaction (excluding voting stock owned by directors who are also officers or held in employee benefit plans in which the employees do not have a confidential right to render or vote stock held by the plan) or, (iv) the business combination was approved by the Board of Directors of the corporation and ratified by two-thirds of the voting stock

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which the interested stockholder did not own. The three-year prohibition also does not apply to certain business combinations proposed by an interested stockholder following the announcement or notification of certain extraordinary transactions involving the corporation and a person who had not been an interested stockholder during the previous three years or who became an interested stockholder with the approval of the majority of the corporation's directors. The term business combination is defined generally to include mergers or consolidations between a Delaware corporation and an interested stockholder, transactions with an interested stockholder involving the assets or stock of the corporation or its majority-owned subsidiaries and transactions which increase an interested stockholder's percentage ownership of stock. The term interested stockholder is defined generally as a stockholder who, together with affiliates and associates, owns (or, within three years prior, did own) 15% or more of a Delaware corporation's voting stock. If it should become applicable to us in the future, Section 203 could prohibit or delay a merger, takeover or other change in control of our company and therefore could discourage attempts to acquire us.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following is a statement of estimated expenses in connection with the issuance and distribution of the securities being registered.

SEC Registration Fee	\$ 11
Printing and Engraving Expenses	\$ 2,500
Legal Fees	\$ 60,000
Accounting Fees	\$ 5,000
Transfer Agent Fees	\$ 2,000
Miscellaneous Expenses	\$ 2,000
TOTAL ESTIMATED EXPENSES	\$ 71,511

All such expenses will be borne by us.

#### ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

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 constitutes all of its issued and outstanding shares.

The 4,750,000 shares were valued at \$.10 a share.

On April 26, 2002, we issued 200,000 shares of our common stock to Global Exploration Equities Inc. in exchange for consulting and legal services provided by it in connection with our corporate organization. These shares were valued at \$.10 a share.

On April 26, 2002, we issued 150,000 of our common stock to Fairbain Trading S.A. in exchange for accounting services provided by it in connection with our corporate organization. These shares were valued at \$.10 a share. On April 26, 2002, we issued 100,000 shares of our common stock to Foremost Securities Limited in exchange for consulting services provided by it in connection with our corporate organization. These shares were valued at \$.10 a share.

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On April 26, 2002 we issued 50,000 shares of our common stock to KGL Investments, Ltd., the shareholders of which are Adam S. Gottbetter, Steven Kaplan, and Paul Levenson. Mr. Gottbetter, Mr. Kaplan and Mr. Levenson are the partners of Kaplan Gottbetter & Levenson, LLP, counsel to the Company. This issuance was in consideration for non-legal services including business and financial consulting. These shares were valued at \$.10 a share.

All of the foregoing securities were sold under the exemption from registration provided by Section 4(2) of the Securities Act. Neither we nor any person acting on our behalf offered or sold the securities by means of any form of general solicitation or general advertising. All purchasers of these securities represented in writing that they acquired the securities for their own accounts. A legend was placed on the stock certificates stating that the securities have not been registered under the Securities Act and cannot be sold or otherwise transferred without registration or an exemption therefrom.

During the period June 2002 through September 2002 we issued an aggregate of 233,000 shares to offshore persons at a price of \$.15 per share or an aggregate of \$34,950. The offering was made in compliance with Regulation S of the General Rules and Regulations under the Securities Act of 1933, as amended.

The following table indicates the names and addresses of those individuals who purchased their shares in connection with the Regulation S offering, as well as the number of shares purchased by each, the price paid per share, and the date of each sale.

<TABLE>  
<CAPTION>

NAME OF SHAREHOLDER	NUMBER OF SHARES	DATE SHARES SOLD	PURCHASE PRICE
<S>	<C>	<C>	<C>
Claudia Ben-Dor . . . . . Mitzpe Tel - El House No. 408 P.O Oshrat P.O. Box 25167	6,000	August 28, 2002	\$ .15
Israel Ben-Dor. . . . . Mitzpe Tel - El House No. 408 P.O Oshrat P.O. Box 25167	6,000	August 28, 2002	\$ .15
Eliasz Bilik . . . . . Moria Ave. 101/A Haifa 34616 Israel	3,200	September 3, 2002	\$ .15
Snir Eitan. . . . . Parcel 140 Hosen Israel	1,400	August 28, 2002	\$ .15
Yael Elipaz . . . . . 25 Shoham Pts. Haifa Israel	1,400	September 5, 2002	\$ .15
Olga Gross. . . . . Gedaliahy Street 1517 Neveshaanon 32587 Israel	6,000	August 28, 2002	\$ .15
Shoshy Inbal. . . . . Hachzav Street 16/21	1,400	August 28, 2002	\$ .15

</TABLE>

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<TABLE>  
<CAPTION>

NAME OF SHAREHOLDER	NUMBER OF SHARES	DATE SHARES SOLD	PURCHASE PRICE
<S> Barak Koren . . . . . BAZ 14 Street Karmiel 20100 Israel	<C> 1,000	<C> September 11, 2002	<C> \$ .15
Eitan Koren . . . . . BAZ 14 Street Karmiel 20100 Israel	7,000	August 30, 2002	\$ .15
Sasson Koren. . . . . BAZ 14 Street Karmiel 20100 Israel	12,000	August 28, 2002	\$ .15
Shoshana Koren. . . . . BAZ 14 Street Karmiel 20100 Israel	18,000	August 28, 2002	\$ .15
Elliot Kretzmer . . . . . 3 Chanita Street Kfar Sava Israel	35,000	July 31, 2002	\$ .15
Amir Marcovitz. . . . . 77 Moshe Gorken Street K. Motykin Israel	6,000	September 6, 2002	\$ .15
Editha Marcovitz. . . . . 77 Moshe Gorken Street K. Motykin Israel	9,000	September 6, 2002	\$ .15
Miron Marcovitz . . . . . 77 Moshe Gorken Street K. Motykin Israel	9,000	September 6, 2002	\$ .15
Revital Marcovitz-Mizrachi. . . . . 16/3 Hativet Hauegev Street Modiin Israel	6,000	September 6, 2002	\$ .15
Bracha Meirav . . . . . 64 Haalie Street Haifa Israel	2,600	September 6, 2002	\$ .15
Yigal Meirav. . . . . 64 Haalia Street Haifa Israel	2,600	September 6, 2002	\$ .15

</TABLE>

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<TABLE>  
<CAPTION>

NAME OF SHAREHOLDER	NUMBER OF SHARES	DATE SHARES SOLD	PURCHASE PRICE
<S> Sasson Mizrachi . . . . . 16/3 Hativet Hauegev Street Modiin	<C> 6,000	<C> September 5, 2002	<C> \$ .15

Israel ----- Helena Mund . . . . . 25 Sinai Street Haifa Israel -----	16,000	August 27, 2002	\$	.15
Simon Mund. . . . . 25 Sinai Street Haifa Israel -----	16,000	August 28, 2002	\$	.15
Alexander Osztreicher . . . . . 15/7, Ghedaliahu Haifa 32587 Israel -----	14,000	August 28, 2002	\$	.15
Barak Osztreicher . . . . . P.O.B. 240 Moledet 19130 Israel -----	4,000	September 25, 2002	\$	.15
Einat Osztreicher . . . . . P.O.B. 79 Elyashiu Israel -----	4,000	September 24, 2002	\$	.15
Haim Osztreicher. . . . . P.O.B. 33658 Haifa Israel -----	6,600	August 29, 2002	\$	.15
Klara Osztreicher . . . . . 15/7, Ghedaliahu Haifa 32587 Israel -----	14,000	August 28, 2002	\$	.15
Lior Osztreicher. . . . . 7, Hashitim Q. Tivon 36000 Israel -----	4,000	September 3, 2002	\$	.15
Shimon Tregerman. . . . . Broshim 205 Tal-El 25167 Israel -----	1,400	August 28, 2002	\$	.15
Svetlana Tregerman. . . . . Broshim 205 Tal-El 25167 Israel -----	1,400	August 28, 2002	\$	.15

</TABLE>

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<TABLE>  
<CAPTION>

NAME OF SHAREHOLDER	NUMBER OF SHARES	DATE SHARES SOLD	PURCHASE PRICE
<S> ----- Margareta Weissman. . . . . 2/7 Eshkol Street K. Motykin Israel -----	<C> 6,000	<C> September 26, 2002	<C> \$ .15
Martin Weissman . . . . . 2/7 Eshkol Street K. Motykin Israel -----	6,000	September 26, 2002	\$ .15
Harry Mund. . . . . 27 Rechov Ha'Mapilim, Kiriati Ata, Israel, P.O. BOX 497, Kiriati Motzkin 26104, Israel -----	4,750,000	April 26, 2002	\$ .15
Fairbain Trading (1). . . . . c/o A.P.T. Associates 19 W. 34th Street, 11th Floor New York, NY, 10001 -----	150,000	April 26, 2002	\$ .15



Global Exploration Equities Inc (2) . . . . .	200,000	April 26, 2002	\$	.15
c/o A.P.T. Associates 19 W. 34th Street, 11th Floor New York, NY 10001 -----				
KGL Investments, Ltd. (3) . . . . .	50,000	April 26, 2002	\$	.15
c/o Kaplan Gottbetter & Levenson, LLP 630 Third Avenue, 5th Floor New York, NY 10017 -----				
Foremost Securities, Ltd. (4) . . . . .	100,000	April 26, 2002	\$	.15
c/o A.P.T. Associates 19 W. 34th Street, 11th Floor New York, NY 10001 -----				

</TABLE>

- (1) Sole beneficial owner of which is Solomon Krok.
- (2) Sole beneficial owner of which is David Kretzmer.
- (3) Beneficial owners of which are Adam S. Gottbetter, Steven Kaplan, and Paul Levenson. Mr. Gottbetter, Mr. Kaplan and Mr. Levenson are partners of Kaplan Gottbetter & Levenson, LLP, counsel to the Company.
- (4) Sole beneficial owner of which is Samantha Topola Family Trust.

The shareholders who purchased their shares in connection with the Regulation S offering each represented in writing that 1) they were not U.S. persons and were not acquiring the shares for the account of any U.S. person; 2) if they were not an individual, they was not formed specifically for the purpose of acquiring the shares purchased pursuant to the subscription agreement; 3) they purchased the shares for their own accounts and risks, and not for the account or benefit of a U.S. Person as defined in Regulation S, and that no other person had any interest in or participation in the shares or any right, option, security interest, pledge or other interest in or to the shares; 4) they, any of their affiliates, or any person acting on their behalf, have made

or are aware of any "directed selling efforts" in the United States; and 5) during the Restricted Period set forth under Rule 903(b)(iii)(A), they will not act as distributors, either directly or through any affiliate, nor will they sell, transfer, hypothecate or otherwise convey the shares other than to a non-U.S. Person. A legend was placed on the stock certificates stating that the securities have not been registered under the Securities Act and cannot be sold or otherwise transferred without registration or an exemption therefrom.

ITEM 27. EXHIBITS

<TABLE>

<CAPTION>

EXHIBIT NO. ITEM

-----

<S> <C>

- 3.1 Certificate of Incorporation of Enertec Electronics, Inc. filed January 31, 31, 2002\*
- 3.2 Certificate of Amendment of Enertec Electronics, Inc. filed April 23, 2002\*
- 3.3 Certificate of Amendment of Opal Technologies, Inc. filed October 17, 2002\*
- 3.4 By-Laws of Lapis Technologies, Inc.\*
- 4.1 Specimen Common Stock Certificate
- 5.1 Opinion and Consent of Counsel
- 10.1 Stock Option Plan of 2002\*
- 10.2 An Agreement for an Unprotected Tenancy, dated in June 2002 between Ammoni Brothers - Carmiel Transporters Ltd. and Enertec Systems Ltd.
- 10.3 Lease Agreement dated October 31, 2002 between Mond Holdings Ltd., and Enertec Electronics Ltd.
- 10.4 Manufacturer's Representative Agreement dated December 20, 1988 between Cytec Corporation and Enertec International.
- 10.5 Exclusive Distribution Agreement dated June 26, 2002 between Gaia Converter by the Company Enertec (Israel) Gaia Converter and Enertec Electronics Ltd.
- 10.6 Annual Agreement dated February 05, 2001 between BigBand Networks Ltd. and Enertec Electronics Ltd.
- 10.7 Supply Agreement between Enertec Ltd. and The Israeli Aeronautical Industries Ltd.
- 10.8 Distributor Agreement dated January 1, 1998 between Christie Electric Corp. and Enertec Electronics Ltd.

</TABLE>

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<TABLE>  
<CAPTION>  
EXHIBIT NO. ITEM

<S> <C>

21 List of Subsidiaries\*

23 Consent of Gvilli & Co., independent certified public accountants

</TABLE>

\*Previously filed with Form SB-2 registration statement filed November 4, 2002

ITEM 28. UNDERTAKINGS.

(a) Rule 415 Offering.

The undersigned issuer hereby undertakes that it will:

- (1) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:
  - (i) Include any prospectus required by Section 10(a)(3) of the Securities Act;
  - (ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of the securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and
  - (iii) Include any additional or changed material information on the plan of distribution.
- (2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.
- (3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(b) Indemnification

Insofar as indemnification for liabilities arising under the Securities Act, may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the issuer of expenses incurred or paid by a director, officer or controlling person of the

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issuer in the successful defense of any action, suit or proceedings) is asserted by such director, officer or controlling person in connection with the securities being registered, the issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such court.

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SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on this Form SB-2 and authorizes this registration

statement to be signed on its behalf by the undersigned, in Kiriati Motzkin, Israel on 9th day of February, 2003.

LAPIS TECHNOLOGIES, INC.

By: /s/ Harry Mund  
-----  
Harry Mund,  
President and Chief Executive Officer

By: /s/ Miron Markovitz  
-----  
Miron Markovitz  
Chief Financial and Accounting Officer and Director

Pursuant to the requirements of the Securities Act of 1933, this registration statement on Form SB-2 has been signed by the following persons in their respective capacities with Lapis Technologies, Inc. and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Harry Mund ----- Harry Mund	President, Chief Executive Officer, Secretary and Chairman of the Board of Directors	February 9, 2003
/s/ Miron Markovitz ----- Miron Markovitz	Chief Financial and Accounting Officer and Director	February 9, 2003



[LETTERHEAD OF KAPLAN GOTTBETTER & LEVENSON, LLP]

February 7, 2003

Lapis Technologies, Inc.  
19 W. 34th Street, Suite 1008  
New York, NY, 10001

Re: Lapis Technologies, Inc.  
Registration Statement on Form SB-2, Amendment Number 1  
for 733,000 Shares of Common Stock

Ladies and Gentlemen:

We have acted as counsel to Lapis Technologies, Inc., a Delaware corporation (the "Registrant"), in connection with the preparation of a Registration Statement on Form SB-2 (the "Registration Statement") to be filed with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act"), on or about the date hereof, in connection with the proposed offering of up to 733,000 shares of Common Stock, par value \$0.001 per share (the "Common Stock") of the Registrant (the "Securities").

For purposes of this opinion we have examined: (i) the Registration Statement, (ii) the Certificate of Incorporation, and the By-Laws of the Registrant, and amendments thereto, if any, (iii) resolutions of the Registrant's Board of Directors, and (iv) such documents, records, agreements, proceedings and legal matters as we have deemed necessary to examine. With respect to any documents or other corporate records which we have examined, we have assumed the genuineness of all signatures on, and the authenticity of, all documents submitted to us as originals, and the conformity to the original documents submitted to us as certified or photostatic copies.

Based upon the foregoing, we are of the opinion that:

- (1) the Registrant is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and
- (2) the Securities sold pursuant to the Registration Statement are validly issued, fully paid and non-assessable.

We hereby consent to the filing of this opinion with the Commission as Exhibit 5 to the Registration Statement. We also consent to the reference to us in the prospectus included in the Registration Statement under the caption "Legal Matters." In giving the foregoing consent, we do not thereby admit that

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we are in the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission thereunder.

Sincerely,

/s/ Kaplan Gottbetter & Levenson, LLP.  
-----

Kaplan Gottbetter & Levenson, LLP

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AN AGREEMENT FOR AN UNPROTECTED TENANCY

=====

MADE AND SIGNED IN CARMIEL ON THE DAY OF THE MONTH OF JUNE 2002

BETWEEN

AHIM AMNONI - MASIAI CARMIEL LTD.
(IN ENGLISH: AMNONI BROTHERS - CARMIEL TRANSPORTERS LTD)
PRIVATE COMPANY 51 - 152568 - 5
THROUGH ITS DIRECTOR AVRAHAM AMNONI
OF HANAPPA STREET 20, CARMIEL
TO BE KNOWN HEREAFTER BY THE ABBREVIATION - "THE LANDLORD"

AND BETWEEN

ENERTEC MA'ARCHOT LTD.
(IN ENGLISH: ENERTEC SYSTEMS LTD.)
PRIVATE COMPANY
TO BE KNOWN HEREAFTER BY THE ABBREVIATION "THE TENANT"

WHEREAS: The Landlord is the owner of the rights to lease and is in sole possession of the industrial building that is located at Hanappa Street 20, Industrial Zone in Carmel with an area of approximately 800 square meters with the addition of a gallery and equipment that is affixed thereto as specified in the Appendix to this Agreement marked 'A' (hereafter:- the "Rented Premises") and is interested in letting it on a unprotected tenancy:

AND WHEREAS: The Rented Premises was clear on the inception of the Tenant's Protection Law (August 20, 1968) of any tenant that was entitled to occupy it and the Tenant will not pay the Landlord key money for his consent to rent the Rented Premises to the Tenant;

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AND WHEREAS: The Parties have agreed among themselves that the Landlord will let the Rented Premises to the Tenant and the Tenant will rent the Rented Premises from the Landlord;

AND WHEREAS: The Landlord hereby declares that there is no impediment whatsoever to the commitment with the Tenant in pursuance of the terms of this Agreement;

AND WHEREAS: The Parties have agreed to put that agreed between them into writing as follows:

IT IS THEREFORE AGREED BETWEEN THE PARTIES AS FOLLOWS:

-----

- 1. The Preamble constitutes an inseparable part of the Agreement.
2. The Landlord lets the Rented Premises to the Tenant for a period of 5 years from April 1, 2002 until March 31, 2007 (hereafter: the "Period of the Tenancy").
3.a. The rent for the first two years, that is until March 31, 2004 will be US \$ 3.00 per square meter for the ground floor and US \$ 1.50 per square meter for the gallery for a month according to the Gregorian calendar, in shekels, linked to the representative rate of the United States dollar at the time of actual payment.
b. It is agreed by the Parties that the area of the ground floor is \_\_\_\_\_square meters and the area of the gallery is \_\_\_\_\_square meters.
c. In the remaining three years, starting from April 1, 2004, the Landlord may raise the rent each year by no more than 2% of the rent paid in the previous year.
d. The actual payments shall be made as follows:
1. For the first two months, the Tenant will pay the Landlord by check on receipt of keys to the Rented Premises.
2. For an additional two months the Tenant will pay the Landlord by check on the date of inception of the tenancy.
3. For the remainder of the Period of the Tenancy, from August 1, 2002 the Tenant will pay the Landlord in advance for each month in the Gregorian calendar month by bank transfer (standing order) to the account of the Landlord, No.

at Bank Leumi Carmiel Branch (961).

- e. In addition to the above amounts, the Tenant will duly pay value added tax at the value added tax rate payable from time to time.
  - f. A payment that is not made on the due date will bear interest at the exceptional rate of interest adopted from time to time by the Bank Leumi.
  - g. An arrear in payment that is in excess of 30 days shall constitute a fundamental breach of the Agreement.
- 4.a. The Tenant may bring the Agreement to an end at the end of each year of the tenancy and during the first two years, and each half year from the third year onwards including the extended period on giving prior notice of three months in advance in writing by registered mail.
- b. The obligation to pay the rent until the end of the Period of the Tenancy or until the end of the period of advance notice in pursuance of sub - paragraph 'a' whichever is the earlier shall apply to the Tenant even if he leaves the Rented Premises before the end of the Period of the Tenancy for any reason whatsoever.

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- 5.a. The Landlord will pay government property tax.
- b. All other taxes and regular payments that are connected with the Rented Premises and the use thereof during the Period of the Tenancy (municipal taxes, payments for consumption of water, electricity, use of a telephone, etc,) will be paid on the due date by the Tenant.
- c. The Tenant will apply to transfer the account for the supply of electricity at the Carmiel Municipality to the name of the Tenant and will furnish M. Zetler, Adv, with proof that the aforesaid was effected within 7 days of the inception of the tenancy.
- d. The Tenant will make the payments specified in sub - paragraph 'b' above on the date determined by the supplier. A delay in payment that exceeds thirty days shall be deemed a breach of contract that will entitle the Landlord to revoke the contract without further notice being required. Payments that are made in advance by the Landlord shall be repaid to the Landlord by the Tenant on the dates on which the Tenant would have had to pay them had the payment not been made by the Landlord.
- 6.a. The Tenant confirms that the Rented Premises have been received in good condition and the Tenant will maintain the Rented Premises in good condition and will repair and restore any damage that derives from use of the Rented Premises during the Period of the Tenancy, other than damage that is caused by reasonable use.
- b. The Rented Premises are transferred to the Tenant with all the facilities and additions affixed thereto by the previous tenant and the Tenant may use them and undertakes to maintain them in their present condition.
- c. The Landlord declares that there is no defect or hidden flaw in the Rented Premises of which the Landlord is aware.

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- d. The Tenant will furnish Michael Zetler, Advocate, with a schedule in which all the defects discovered in the property are revealed on its transfer to the Tenant within 48 hours of transfer of the property.
- e. The Tenant may place notices on the Rented Premises subject to receipt of authorization from the authorities. The Tenant will be obligated to remove the notices that were placed before returning possession of the Rented Premises to the Landlord.
- 7.a. The Tenant will not assign all or part of the Tenant's the rights in pursuance of this Agreement other than with prior consent in writing from the Landlord. The Landlord will not object to letting part of the Rented Premises on a sub - tenancy other than on reasonable grounds.
- b. It is agreed between the Parties that the Rented Premises will be used exclusively for the conduct of the Tenant's business.
- c. The Tenant will apply for a license from the competent bodies to operate a business on the Rented Premises, at the Tenant's expense, in

order to conduct this business on the Rented Premises.

8. The Landlord may enter the Rented Premises to examine them at any reasonable time on coordinating in advance with the Tenant.
9. The Tenant will not introduce changes to the Rented Premises other than with prior consent in writing from the Landlord. The Tenant may, at the end of the Period of the Tenancy or any extended period, take any additions that may be dismantled without causing damage to the Rented Premises. As regards the additions that remain in the Rented Premises after return of possession of the Rented Premises to the Landlord at the end of the Period of the Tenancy or any extended

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period, the Landlord may chose between the right to demand a waiver of the alterations and/or additions that were made by the Tenant and the right to demand that the Rented Premises be restored to the condition in which they were on transfer to the Tenant in pursuance of this Agreement.

- 10.a. At the end of the Period of the Tenancy (or at the end of the extended period, if exercised), the Tenant will vacate the Rented Premises and return them to the Landlord in the state in which they were when received by the Tenant other than reasonable wear and tear that is derived from prudent use.
- b. For each day's delay in vacating the Rented Premises, the Tenant will pay the Landlord as compensation agreed and fixed in advance, a sum in shekels that is the equivalent of US \$ 150 according to the representative rate of the US dollar on the date of payment, in addition to any right and remedy that is available to the Landlord for breach of the Contract on the part of the Tenant. The municipal and other payments mentioned in paragraph 5 'b' and/or repair of damage that is caused to the Rented Premises and/or to the payments mentioned in paragraph 10 'b'.

- 11.a. As a guarantee of the fulfillment of the Tenant's obligations in pursuance of this Agreement, the Tenant will deposit two bills / checks with M. Zetler, Adv, that have been signed by the Tenant in no specified amount and with the indication: 'not negotiable' to the order of the Landlord. The one bill / check will be used to guarantee payment of the rent and differentials in linkage to the dollar while the other will guarantee payment of electricity, water, municipal taxes and any other payments that apply to the Tenant in pursuance of the terms of this Agreement other than the rent.
- b. M. Zetler, Adv. will deliver the bills / checks to the Tenant immediately after it has been proved to his satisfaction that the Tenant has vacated the Rented Premises at the end of the Period of the Tenancy (or the extended period, if exercised) and fulfilled all the

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other obligations imposed on the Tenant in pursuance of this Agreement.

- c. M. Zetler, Adv. will deliver the bills / checks to the Landlord if it has been proved to his satisfaction that the Tenant did not fulfill all the financial obligations imposed on the Tenant in pursuance of this Agreement and after the Tenant has not repaired the breach even after receipt by registered mail of 14 days advance notice in writing of the intention to request delivery of the bill to the Landlord.
- 12.a. Without derogating from that stated in paragraphs 5 'c' and 10 'b' and in addition thereto, if the Tenant violates the Tenant's undertakings in pursuance of this Contract or any part thereof, the Tenant shall be obligated to pay the Landlord full compensation for the damage incurred as a result of the violation, without prejudicing the Landlord's right to take any other step in pursuance of this Contract or in pursuance of any law including injunctions, specific performance orders, eviction orders, notices to quit, etc.
  - b. Should the Landlord violate the undertakings imposed on the Landlord in pursuance of this Contract or any part thereof, the Landlord shall be bound to pay the Tenant full compensation for the damage incurred as a result of the violation, without prejudice to the Tenants right to exercise any additional relief in pursuance of this Contract or in pursuance of any law.



c. It is agreed between the Parties that the Landlord may cancel this agreement by giving the Tenant written notice in any of the following events:

- 1. Transfer of the Rented Premises to another in contradiction of that stated in this Agreement.
- 2. Grant of a lien on the assets of the Tenant, if the Tenant does not see to the cancellation of the order within 15 days of the grant of the order.

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- 3. Grant of a receiving order and/or appointment of a receiver in respect of the Tenant's assets.

d. Should the Landlord have given notice of cancellation of the Agreement, the Tenant will vacate the Rented Premises within 30 days of the date of receipt of the notice.

13.a. The Landlord hereby grants the Tenant an option to rent the Rented Premises for an additional period of 59 months, on condition that the Tenant has complied with all the terms of the tenancy in the preceding year of the tenancy and on condition that the Landlord has not sold the Rented Premises during the year of the tenancy.

b. The rent for the extended period will be agreed between the Parties.

c. The Tenant will give notice in writing no later than January 1, 2007 of the wish to extend the Tenancy Agreement beyond the first period of the tenancy.

d. The conditions of the tenancy (other than the rent) in regard to the extended period will not differ from the conditions for the first Period of the Tenancy, but an option will not be given for an additional period after the end of the extended period. The rent for the extended period will be paid monthly in advance.

14. The Tenant undertakes to insure the Rented Premises and its contents (fittings and business inventory) against burglary, fire and other damage to which industrial businesses of this sort are liable including third party claims and will deliver a copy of the insurance policy to the Landlord within 30 days of the inception of the tenancy.

15. Each Party will be responsible for its lawyer's fees.

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Stamp duty for the Contract (if applicable) will be paid by the Tenant.

AND IN WITNESS WHEREOF THE PARTIES HAVE SET THEIR HANDS:

(-) SIGNED

(-) SIGNED

THE LANDLORD

THE TENANT

(-) STAMP: AMNONI BROTHERS -

(-) STAMP: ENERTEC SYSTEMS

CARMIEL TRANSPORTERS LTD.

HANAPPA STREET 21, CARMIEL

TEL: 04 - 9585680

FAX: 04 - 9585679

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APPENDIX "A"

- 1. A PANASONIC TELEPHONE EXCHANGE, MODEL \_\_\_\_\_.
- 2. 17 AIR CONDITIONERS, MANUFACTURED BY ELECTRA, MODEL \_\_\_\_\_.
- 3. FIRE DETECTOR SYSTEM
- 4. -A-L-A-R-M-S-Y-S-T-E-M- [TEXT CROSSED OUT]
- 5. -F-I-X-E-D--F-U-R-N-I-S-H-I-N-G-S--I-N-C-L-U-D-I-N-G- [TEXT CROSSED OUT]

G U A R A N T E E

I, \_\_\_\_\_ ID \_\_\_\_\_  
AND \_\_\_\_\_ ID \_\_\_\_\_

HEREBY GUARANTEE PERFORMANCE OF ALL THE FINANCIAL AND CONTRACTUAL UNDERTAKINGS  
OF THE TENANT IN PURSUANCE OF THIS AGREEMENT, INCLUDING DURING THE EXTENDED  
PERIOD MENTIONED ABOVE IN PARAGRAPH 13.

\_\_\_\_\_  
\_\_\_\_\_  
[Translator's note: Two signatures appear at the bottom of each page of the  
original document in Hebrew and any alterations to the text have been initialed  
in the margins.]

A L E A S E A G R E E M E N T

that was made and signed in Haifa on October 31. 2002

between

MOND HOLDINGS LTD.  
PRIVATE COMPANY 513118653  
(TO BE CALLED HEREAFTER: THE "LANDLORD")

OF THE FIRST PART  
-----

and between

ENERTEC ELECTRONICA LTD.  
(IN ENGLISH: ENERTEC ELECTRONICS LTD.),  
PRIVATE COMPANY 51 - 1640070  
POB 497, KIRYAT MOTZKIN  
(TO BE CALLED HEREAFTER: THE "TENANT")

OF THE OTHER PART  
-----

Whereas: The Landlord is the owner and in possession of a building that is located at Hama'apilim Street 27, in Kiryat Ata and that is known as Parcels 2/11 and 2/12 in Bloc 11628 (hereafter: the Rented Premises);

And Whereas: It is the wish of the Landlord to let the Rented Premises to the Tenant and it is the wish of the Tenant to rent the Rented Premises from the Landlord;

It is therefore agreed and stipulated between the Parties as follows:

- 1. The Preamble to this Agreement constitutes a principal and inseparable part hereof and the Parties again confirm that stated herein.
- 2. The Tenant declares that it has not paid the Landlord key money for the Rented Premises and that therefore the Tenant's Protection Law (Integrated Version) 5732 - 1972 and that any other law of protection that may be enacted in the future shall not apply to this tenancy. Neither shall the Hire and Loan Law, 5731 - 1971 apply to the tenancy.

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- 3. The Landlord will let the Rented Premises to the Tenant and the Tenant will rent the Rented Premises from the Landlord for a period of two years from December 31, 2001 until December 31, 2003 (hereafter: the Period of the Tenancy).
- 4. The Tenant will pay the Landlord monthly rent for the Rented Premises in an amount that is the equivalent of \$ 1,412 according to a key of \$4 a meter at the representative rate of the dollar on the date of each and every payment with the addition of value added tax at the legal rate on the date of each payment.

The rent will be paid three months in advance.

To guarantee the payment, the Tenant will deliver to the Landlord, checks at the dollar rate on the date of signing this Agreement. Calculation of the exchange differentials due to the Landlord will be made every three months.

- 5. The Tenant may not transfer possession of all or part of the Rented Premises to any other person or body whatsoever without the prior consent in writing of the Landlord to do so.
- 6. The Tenant may not make any alterations to the Rented Premises without the prior consent in writing of the Landlord to do so.
- 7. The Tenant undertakes to maintain the Rented Premises in good order, to make any repair, to repair damage or impairment that is caused thereto during the Period of the Tenancy and to return the Rented Premises at the end of the Period of the Tenancy in the state in which he received them.
- 8. The Tenant shall be responsible to insure the building of the Rented Premises and its contents during the Period of the Tenancy with All Risks insurance, including insurance cover for their customers and invitees.

The Tenant will indemnify the Landlord for any claim that is filed against the Landlord by any of the Tenant's customers, guests and invitees.

9. The Tenant will vacate the Rented Premises and return possession thereof and the above fittings to the Landlord at the end of the Period of the Tenancy in good order, in the state in which they were on the date on which this Agreement was signed and in accordance with the aforesaid.

The Tenant will pay the Landlord a sum that is the equivalent of \$ 75 for each day's delay in vacating the Rented Premises and the fittings on the end of the Period of the Tenancy as compensation fixed and agreed in advance without the need to prove damage.

- 10.a. The Landlord undertakes to pay government property taxes that apply to the Rented Premises during the Period of the Tenancy.
- b. The Tenant undertakes to pay the municipal taxes and electricity, water and gas expenses, and house committee taxes that apply to the Rented Premises during the Period of the Tenancy.

Should the Landlord be forced to pay these expenses, the Tenant undertakes to return them to the Landlord immediately on the Landlord's first demand.

11. The Landlord or his representative may visit the Rented Premises at any reasonable time to examine its state or to show it to potential purchasers or tenants after first coordinating with the Tenant.
12. To guarantee the Tenant's undertakings in pursuance of this Agreement, including the period of the option, the Tenant will deposit a promissory note (as security) with Shmuel Elkon, Advocate, in a sum of NIS 250,000 (two hundred and fifty thousand) that the Tenant has signed as author of the note that is guaranteed by two acceptable guarantors to the satisfaction of the Landlord and the Tenant hereby gives the attorney an irrevocable instruction to deliver the note to the Landlord if it is shown to the satisfaction of the attorney that the circumstances exist to justify doing so.
13. The Tenant is hereby granted an option to rent the Rented Premises for a further period of a year providing that notification of the Tenant's wish

to exercise the option is given in writing to the Landlord at least 60 days before the end of the Period of the Tenancy that it is sought to extend as stated and on the further condition that on giving the said notice, the Tenant delivers to the Landlord checks for the rent due from the Tenant for the period of the option in pursuance of that stated in paragraph 4 above.

The monthly rent during the period of the option shall be as specified in paragraph 4 above to which shall be added the rate of inflation in the United States of America from the date of signing this Agreement until the date of each payment.

The conditions of this Agreement, mutatis mutandis, shall apply also during the period of the option.

14. Should the Agreement be fundamentally breached by the Tenant, or should the Tenant not vacate the Rented Premises on time at the end of the Period of the Tenancy or of the option in pursuance of this Agreement, then the Landlord may revoke this Agreement immediately it is breached and take all steps including the immediate removal of the Tenant from the Rented Premises with his chattels without the need to go to court.
15. The Parties have been notified of the need to stamp the Agreement.
16. The Parties have waived the need to send notarized notices in all that concerns this Agreement and whatever derives from it.

And in witness whereof the Parties have set their hands  
in Haifa on October 31, 2002.

\_\_\_\_\_  
T H E L A N D L O R D

\_\_\_\_\_  
T H E T E N A N T

CYTEC CORP

-----  
2555 BAIRD ROAD, PENFIELD, NEW YORK 14526 (716) 381-4740 FAX: (716) 381-0478

-----  
REPRESENTATIVE AGREEMENT  
-----

This Manufacturer's Representative Agreement is made this 20th day of December 1988, by and between CYTEC CORPORATION, a corporation under the laws of the state of New York, having its principle office at 2555 Baird Road, Penfield, NY 14526, hereinafter referred to as the "PRINCIPAL" and ENERTEC INTERNATIONAL at \_\_\_\_\_ hereinafter referred to as the: "REPRESENTATIVE".

RECITALS

- A. PRINCIPAL is engaged in the business of manufacturing and supplying certain goods, equipment, and/or products, hereinafter referred to as the "Products."
- B. REPRESENTATIVE desires to engage in the business of being a Representative for the PRINCIPAL'S products, and PRINCIPAL desires that REPRESENTATIVE be so engaged, on the terms of this Agreement.

AGREEMENT

It is mutually agreed as follows:

1. APPOINTMENT AND ACCEPTANCE

PRINCIPAL appoints REPRESENTATIVE as its exclusive selling representative to sell products specified in Section 3 in the territory defined in Section 2; and REPRESENTATIVE accepts the appointment and agrees to sell and promote the sale of the PRINCIPAL'S products.

2. TERRITORY

Representative's territory will consist of the geographical area, hereinafter referred to as the "Territory."

3. PRODUCTS

The Products of the PRINCIPAL to be sold by the REPRESENTATIVE are specified in the Product Bulletins and Price Lists. The PRINCIPAL may, with the consent of REPRESENTATIVE, amend the Product Bulletins and Price Lists from time to time to add new or additional Products manufactured or sold by the PRINCIPAL.

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4. AMOUNT OF COMPENSATION

- (a) REPRESENTATIVE shall receive from PRINCIPAL, on all sales of PRINCIPAL's products originating from the Territory, a sales commission in accordance with the provisions of Attachment C attached hereto. Said commission shall be paid on all orders originating from the Territory occurring after the effective dates of this Agreement, and before the date of termination. In addition, commissions shall be paid for sixty (60) days after the effective date of termination of this agreement on all accounts identified in writing to PRINCIPAL prior to the termination date.
- (b) Commissions shall be computed on the net selling price of Products to the customer. The net selling price shall be the gross price paid by the customer, less license fees, royalties, taxes, shipping charges, and any allowances or discounts granted to REPRESENTATIVE by PRINCIPAL.
- (c) Representative's commissions shall be paid on or before the 15th day of the month following the month in which PRINCIPAL receives payment from its customers.
- (d) Commissions paid or credited to REPRESENTATIVE on sales of PRINCIPAL's Products which are returned to PRINCIPAL, or on which allowances or adjustments are made for any reason, shall be promptly repaid to PRINCIPAL upon written notification from PRINCIPAL.
- (e) In the event multiple Sales Territories are involved in an order, commissions shall be split in the following manner:

25% to purchasing territory  
50% to engineering territory  
25% to installation territory

5. ACCEPTANCE OF ORDERS

- (a) The PRINCIPAL will have the right, at its sole discretion, to accept or reject any and all orders from customers within the Territory. All credit risks will be the responsibility of the PRINCIPAL.
- (b) The PRINCIPAL will furnish the REPRESENTATIVE with copies of all quotations, order acknowledgments, shipping notices, invoices, credits, and other correspondence pertaining to the customers orders as requested by the REPRESENTATIVE.

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6. TERMS OF SALE

All sales will be at prices and upon terms established by the PRINCIPAL, and it will have the right, at its sole discretion, from time to time, to establish, change, alter or amend prices and other terms and conditions of sale. REPRESENTATIVE will not accept orders in the PRINCIPAL's name or make quotations or delivery promises without the PRINCIPAL's prior approval.

7. RESPONSIBILITIES OR REPRESENTATIVE

- (a) REPRESENTATIVE will use its best efforts to promote and sell PRINCIPAL's Products within the Territory, devoting adequate time and resources to this task.
- (b) REPRESENTATIVE will maintain, at Representative's expense, office, telephone, and other facilities as are necessary to promote the sales of PRINCIPAL's Products.
- (c) REPRESENTATIVE will maintain a sales organization within the Territory appropriate for the promotion and sale of PRINCIPAL's Products. The sales personnel shall have sufficient knowledge of PRINCIPAL's Products to assist customers with product applications.
- (d) REPRESENTATIVE shall assist PRINCIPAL in demonstrations to customers, and coordinate with PRINCIPAL for product service and product warranties undertaken by PRINCIPAL.
- (e) REPRESENTATIVE shall provide prompt attention and resolution to inquiries and complaints from customers within the Territory.
- (f) REPRESENTATIVE shall submit to PRINCIPAL such information as PRINCIPAL may reasonably request from time to time in connection with Representative's activities.
- (g) REPRESENTATIVE will furnish a written sales forecast on a monthly basis. This forecast shall be issued on approximately the first day of each month and will include potential orders for the next ninety (90) days.
- (h) REPRESENTATIVE shall make no representations or warranties except as specifically authorized by PRINCIPAL.
- (i) The REPRESENTATIVE will handle no other product in the allocated territory that is competitive with the PRINCIPAL's Products unless prior written consent of the PRINCIPAL is obtained. REPRESENTATIVE

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will provide to PRINCIPAL a list of current principals. REPRESENTATIVE will notify PRINCIPAL in writing of additions or deletions to the list.

8. RESPONSIBILITIES OF PRINCIPAL

- (a) PRINCIPAL shall provide sales support to REPRESENTATIVE and its sales personnel.
- (b) PRINCIPAL shall provide technical support for its products.
- (c) PRINCIPAL shall provide reasonable quantities of sales literature, brochures, and other sales support materials deemed necessary by PRINCIPAL. All sales literature, etc. will be provided at the expense of the PRINCIPAL, shall remain the property of the PRINCIPAL, and will be returned to PRINCIPAL WHEN REQUESTED.
- (d) PRINCIPAL shall promptly provide REPRESENTATIVE with sales leads originating from within Representative's Territory which were generated to PRINCIPAL by advertising, promotions, or direct factory

contact.

(e) PRINCIPAL shall provide a warranty on all PRINCIPAL Products represented by REPRESENTATIVE. PRINCIPAL assumes all responsibility for quality and performance of its products.

9. TERM OF AGREEMENT AND TERMINATION

This agreement will be effective on the date shown in the opening paragraph of this agreement and will continue in force unless terminated by 90 days prior written notice by either party.

10. CONSTRUCTION OF AGREEMENT

This agreement will be construed according to the laws of the State of New York.

11. DISPUTES AND ARBITRATION

The parties agree that any disputes or questions arising hereunder, including the construction or application of this Agreement, will be settled by arbitration in accordance with the rules of the American Arbitration Association then in force.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

PRINCIPAL:

REPRESENTATIVE:

CYTEC CORPORATION

\_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

Harry Turner  
President  
12/20/88

Harry Mund  
President  
1/25/89

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REPRESENTATIVE AGREEMENT

ATTACHMENT C

REPRESENTATIVE COMPENSATION SCHEDULE

Commission on all product sales in the territory shall be 15% of the total net price, except as follows:

1. Where discounts are given for either quantity, or for any other reason the following schedule will apply.

DISCOUNT	COMMISSION RATE
5	12.5%
10	10.0%
15	8.0%
20	7.0%
25	6.0%
30	5.0%

2. On all other items, including special products, obsolete products, special engineering, documentation and spares the Commission Rate will be 5% of Invoice Price.

3. Where a system includes standard products and special engineering, the standard products will be commissionable at 15% and the remainder at 5%.

4. On accounts sent for collection the cost of collection will be treated as discount and commission will be paid at that discount rate.

PRINCIPAL:

REPRESENTATIVE:

CYTEC CORPORATION

\_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

Harry Turner  
12/20/88

Harry Mund  
1/25/89

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Document: DC-95083 of the 26th June 1995

CONTRACT ON EXCLUSIVE DISTRIBUTION  
REGARDING THE SALE OF THE PRODUCTS  
GAIA CONVERTER  
BY THE COMPANY ENERTEC (ISRAEL)

BETWEEN: THE COMPANY GAIA CONVERTER SA, CAPITAL F 790.000  
REGISTERED AT THE REGISTRAR OF TRADE AND COMPANIES IN  
BORDEAUX, UNDER REGISTRATION NO. B392 666 947  
HEREINAFTER: "THE GRANTOR"

AND BETWEEN: THE COMPANY ENERTEC ELECTRONICS LTD.,  
REGISTERED AT THE REGISTRAR OF TRADE AND COMPANIES  
NO. \_\_\_\_\_  
HEREINAFTER: "THE DISTRIBUTOR"

NOW AND THEREFORE:

The Grantor had developed and adjusted a variety of Products as described in the Appendix, on which he has all rights and wishes to expand his chain in the Territory stated in the Appendix.  
Taking into consideration the relations created and obtained with his clientele, the Distributor esteems that he has the tools required for the distribution of the Products to this clientele.

DEFINITIONS:

Whenever used in this contract or in relation with its execution, the following terms shall be defined as hereinafter.

- - "PRODUCT" shall mean the Products or Products described in the Appendix
- - "TERRITORY" shall mean the countries or regions listed in the Appendix
- - "TRADEMARK" shall mean the rights on the signs, logos, designs and models related with the product.

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ARTICLE 1: OBLIGATIONS

By way of the present contract, the Grantor grants to the Distributor the exclusive sale of the product in the Territory during the period of the contract in conformity with the terms and conditions therein, and the Distributor accepts this concession.

In view of the above, the Distributor undertakes to realize and shall be liable for the integrity of the operations of stock keeping, promotion, sale and invoicing of the product in the Territory as well as the collection of debts from his clients, in conformity with the terms and conditions defined in the present contract.

The parties shall always act independently from each other, and the present contract shall not be viewed as creating any kind of branch or joint venture, nor any relation of subordination, representation, mandate, agency or any analogy among them.

ARTICLE 2: TERM

The contract shall come into force as of today.  
The contract refers to a first trial period of one year, during which period the sides shall be enabled to bring it to an end without indemnities and upon notice of two months in advance.  
At the end of this period, the contract shall be renewed automatically for a period of 2 years, unless notice shall be given at least 6 month in advance by any of the sides at the present contract.

ARTICLE 3: TERRITORY AND CLIENTELE

The Distributor shall perform his activity in the Territory described in the Appendix.

ARTICLE 4: THE GRANTOR'S OBLIGATIONS

In order to enable the Distributor to fulfill his mission as granted, the Grantor undertakes to put at his disposal any commercial and technical document on the Products and offer, if necessary, technical support at the exhibition of the Products.

ARTICLE 5: TRADEMARK

In all territories the Products shall be distributed under the Trademark GAIA Converter.  
The Distributor undertakes not to make use of the Trademark but for the purpose of the present contract and in relation with the Products. He is not allowed to use it on his company letterhead nor in brochures, advertisements or promotional documentation, should he prepare such, but by mentioning his quality of independent enterprise, Distributor of the Trademark GAIA Converter.

## ARTICLE 6: COMMERCIAL POLICY / ANNUAL TARGET

- 6.1 COMMERCIAL POLICY The Distributor shall be free to determine his commercial policy (advertisement, price ) to be conducted in the Territory. Notwithstanding, regarding the price policy the Grantor shall convey the "recommended sale prices" based on the sale prices catalog used in France. The sale prices used by the Distributor to the clients shall be based on these "recommended sales prices".
- 6.2 ANNUAL TARGET For the first year no commercial target shall be fixed. At the beginning of the Gregorian year the commercial targets shall be fixed and enclosed to the contract. Three months before the start of each Gregorian year, the Distributor shall inform his forecasts for orders of the Products for the next year, forecasts that shall have an indicative character.

## ARTICLE 7: EXCHANGE OF INFORMATION BY THE SIDES

The Distributor shall keep the Grantor informed as to operational, financial, technical and commercial aspects of the markets in the field of said Products.

## ARTICLE 8: ADVERTISEMENT

The advertisement and the promotion of the Products in the Territory shall be effected on the Distributor's account.

## ARTICLE 9: CONDITIONS OF THE DISTRIBUTOR'S OPERATION

The Distributor must act in accordance with all professional diligence in order to promote the sales of the Products subject of the present contract and in order to preserve the confidence of his clientele in his sector of activity. In his quality of Distributor, the Distributor enjoys independence in the organization of his activity. He shall determine by himself the methods of work as well as the choice of his colleagues; consequently, the Distributor shall cover all occasional expenses of his activity.

The Distributor shall never be considered in regards to the fiscal and social laws as the Grantor's employee.

10.

## SUPPLIES AND STOCKS

- 10.1 SUPPLIES The price of transfer of the Products as well as the terms of transport and delivery are listed in the Appendix. Prices shall be updated yearly at the beginning of the Gregorian year. The Distributor shall be informed on revised prices with sufficient notice in advance. With each shipment an invoice shall be issued. Invoices shall be paid according to the conditions listed in the Appendix.
- 10.2 STOCKS The Distributor undertakes to keep in his premises stocks for immediate disposal in order to fulfill the requirements of the market. The Products shall be received, stocked and delivered according to the instructions of GAIA Converter.
- 10.3 EXCHANGE OF STOCKS At the beginning of each Gregorian year the Grantor undertakes to replace the references of the Products as the case may be.

## ARTICLE 11: NON-COMPETITION

During the period of the contract, the Distributor undertakes not to manufacture, distribute and/or sell, directly or indirectly, any competing product, meaning any product that is identical or substantial in the consumer's spirit.

## ARTICLE 12: CONFIDENTIALITY

The Distributor undertakes to preserve the confidentiality and not to reveal to any third party whatsoever without the Grantor's prior authorization, in writing and explicitly, during the period of the present contract and for a period of 5 years following it, any data whatsoever that had reached the Distributor during his collaboration with the Grantor.

## ARTICLE 13: GUARANTEE CIVIL LIABILITY

At the Distributor's disposal 8 days as of the date of reception of each shipment in his warehouses to inform the Grantor of any quality failure of the Products in order to enable him, after control thereof, to perform the replacement.

The Grantor undertakes full and complete liability for all consequences of damage that may occur from the use of the Products, except such damages sourced in the Distributor's mistake or non-observation by the Distributor of the Grantor's instructions, as well as the legislation in the Territory as applicable, regarding the stocking and sale of the Products.

If it comes to the Distributor's attention, directly or indirectly, that the use of any of the Products sold in the Territory causes material or corporeal

damages, he is to inform immediately the Grantor and to communicate him all data that he had collected in the matter.

The Distributor undertakes to take an insurance covering the risks and torts derived from the operations of reception of the stocks and the delivery of the Products.

#### ARTICLE 14: SUSPENSION THE CONTRACT

##### 14.1 SUSPENSION

The side wishing to bring the contract to an end shall inform the other side by registered letter with receipt of delivery by notice of 6 months in advance.

##### 14.2 TERMINATION

Should the Distributor breach his obligations as stated above, the present contract shall be ended automatically by way of registered letter with receipt of delivery.

If up to one year the Distributor shall not fulfill his trade objectives, the Grantor shall be entitled to end the present contract in conformity with the terms listed in art. 14.1 above.

In case of such termination by the Grantor, the Distributor shall not be entitled to require any indemnity for the orders passed to the Grantor after the entry into force of such termination and shall not be entitled otherwise to collect any indemnity whatsoever.

Unless consented otherwise by the Grantor, the present contract shall be automatically null and avoid in case of legal occurrence or change in the management and/or control of the Distributor.

The Grantor preserves the right to stop completely or partly the manufacturing or to stop the trading in the Territory of the Products without the Distributor's complaint of any type or kind whatsoever, nor to pretend for indemnities thereof.

In case the present contract shall not be renewed after the initial term, the sides agree that no right shall be preserved.

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##### 14.3 CONSEQUENCES

On the date or date of enforcement of termination of the present contract, the Distributor undertakes:

To transfer free of charge to the Grantor or to any person designed by the Grantor any authorization for trading of the Products in the Territory. To return to the Grantor all technical or commercial documents in his possession.

To stop immediately the use of the Trademark

The stocks of Products in good condition and suitable for sale, held and paid for by the Distributor during the term or on the date of effect of the termination of the contract shall be taken by the Grantor at the valid prices paid.

#### ARTICLE 15: TRANSFER OF THE CONTRACT

The present contract, made intuiti personae, shall not be transferred to any third party whatsoever without the Grantor's preliminary written and explicit consent.

#### ARTICLE 16: DISPUTES

All disputes regarding the interpretation or the implementation of the dispositions in the present contract and which cannot be solved amicably, shall be solved by arbitration in Paris (France) according to the regulations on conciliation and arbitrage of the International Chamber of Commerce, by one or several arbitrators nominated in conformity with the same regulations, the language of the arbitrage being the French language and the arbitration decision shall be definitive and beholding the sides.

The law of the present contract is the French law.

For ENERTEX  
Date: 10.11.95  
Name: Harry Mund  
Title: General Manager  
Signature (-)

For GAIA Converter  
Date:  
Name: H. Huillet  
President, General Director  
Seal and signature (-)

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#### APPENDIX TO CONTRACT

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##### A. THE PRODUCTS

Standard Modules Converters such as defined in the datasheets of the product GAIA Converter enclosed to the contract.

Following models are available:

- Range 4W named MGDM-04

- Range 10W named MGDM-10
- Pre-Regulator PGDS-50

B. TERRITORY  
ISRAEL

C. CLIENTS  
All kinds of clients and fields

D. TERMS OF PURCHASE  
Discount of 20% on the sale prices appearing in the catalog for France.  
This price does not cover packing and port fees and is at factory gate (Ex works)  
Products are under GAIA Converter guarantee.  
The terms of Purchase are conditioned by a minimum invoice of 3.000 F. not including tax.

E. PRICE OF SALE TO CLIENTS  
The price of sale for the products to the clients shall be in the local currency of the country and shall be determined by the Distributor.  
Notwithstanding GAIA Converter shall inform the "recommended sale price" based on its price-list for sale in France.  
This price of sale to the client in France is quantity conditioned:  
- orders from 1-3 units of same reference:  
- orders from 4-9 units of same reference:  
- orders from 10-49 units of same reference:  
- orders from 50-99 units of same reference:  
- orders from 100-199 units of same reference:  
Orders exceeding 200 units are named "OEM". These are dealt with jointly in order to reach a satisfactory conclusion.

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F. TERMS OF PAYMENT  
Orders placed by the Distributor shall be paid by bank transfer within 30 days as of receipt of invoice.

For ENERTEX	For GAIA Converter
Date: 10.11.95	Date:
Name: Harry Mund	Name: H. Huillet
Title: General Manager	President, General Director
Signature (-)	Seal and signature (-)

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#### CONDITIONS OF SALES & WARRANTY

- 1 General terms:
  - 1.1 Except special written conventions, all orders from the customer shall comply with the present general terms & conditions of sale and information contained in the catalogs, leaflets are not binding on GAIA Converter. GAIA reserves the right to change or modify without notice any of the specifications of the products in addition our general terms & conditions-shall overrule any special conditions included in the customer's purchase order.
  - 1.2 Orders received by our customers doesn't constitute a firm sale order until they have been confirmed and accepted in writing by GAIA Converter
  - 1.3 Gaia Converter shall not be bound to any order taken by its representatives or employees unless such order has been confirmed in writing by one of its duly authorized representative
- 2 Quotations:

Unless indicated otherwise quotations are valid for 30 days.
- 3 Prices:
  - 3.1 All prices quoted are fob factory. without taxes and/or import duties, packing and transport are not included and shall be a separate item on the invoice.
  - 3.2 Our products are invoiced at a price based on the current price list at the time of order. Our price list is periodically revised and will be disclosed to our customer upon request.
- 4 Payment Conditions:
  - 4.1 Our invoices are payable, net 30 days. Gaia's representative or employees are not authorized to collect payment.
  - 4.2 All invoice that are not paid when due shall be subject to a penalty interest charge equal to one and a half time the bank prime rate permitted by local regulations starting on the due date of the invoice. The accounting of this penalty in Gala's accounting, book and the resulting obligation by the customer to pay such amount will be confirmed in writing and shall be applicable to any discount or credit due by Gaia Converter.
  - 4.3 If customer failed to make any payment. Any and all other payment become immediately due and Gaia reserves the right to suspend or cancel current orders if it has not heard from the customer within 8 days after; t has informed the customer in writing by registered mail. Under such condition if Gaia cancel a customer's order, any payment received will be kept as compensation

4.4 Cash payment or bank guaranty maybe required until proper customer's credit has been established or for the first order of the customer or when the customer's financial condition deteriorate. Gaia reserves the right at all time and according to its risk perception to establish the credit limit of each customer and to adjust its payment terms.

5 Delivery:

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5.1 Whatever is the destination of our products, the delivery is always done from our factory or warehouse, either directly to the customer or by a notice that those products are available for pick up or when notice is given to the customers transport company that goods are ready for pick up.

5.2 Delivery delay are computed from the factory as per the terms indicated on our delivery slip that is used as an order acknowledgment.

5.3 Delivery dates are indicated as accurately as possible, but are given as an indication, according to our suppliers and transport facilities, therefore any delivery delays shall not be subject to penalty or order cancellation or delivery cancellation.

5.4 Furthermore, delivery can only take place if customer has fulfilled all its current obligations.

6 Modifications or cancellation of order:

6.1 If the customer want to modify the specifications of the product, after the order has been processed, GALA reserves the right to changes the prices and delivery quoted.

6.2 No modifications or cancellation of order can be accepted:

- For special products, developed at the request of a customer,
- For standard products, at less than 7 weeks before the scheduled delivery date,.
- In all other cases a total or partial cancellation can only take place upon GAIA's written agreement. A cancellation charge of 35% of the order shall be due

7 Warranty & Compliance:

7.1 Gaia Converter reserves the right to modify the specifications of its products (characteristics, size, form functions) according to the technological evolution. It the products have already been ordered, the customer has the option to accept or refuse such modification, in which case, the order will be cancelled without prejudice

7.2 GAIA warrants that all of its products are free from defects in material or workmanship under normal use and service for a period of one year from delivery date. Provided the product has been used according to its normal usage, and not subject to misuse or accident:

7.3 GAIA's obligations under this warranty are limited to replacing or repairing, at our option, at our factory or facility, any of the products which shall within the applicable period after shipment be returned to us, transportation charges prepaid, and which are, after examination, disclosed to the satisfaction of GAIA to be thus defective. The warranty does not apply to any products or equipment which have been repaired or altered, except by GAIA, or which have been subjected to misuse, negligence or accident. Under no circumstances shall Gaia's liability exceed the original purchase price. The aforementioned provisions do not extend the original warranty period of any product, which has either been repaired or replaced by GAIA.

7.4 Customer can only claim warranty if he has comply with all payment conditions.

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7.5 The return of products is subject to authorization, and furthermore will be accepted only if the 4 following conditions are met:

- The exact reason for the return must be indicated on all alleged defected product,
- The return must be done in the original packing in good condition at the customer's expense,
- The product must not have been tempered with or modify by the customer,
- The product must not be deteriorated for any reasons.

8 Title and Claim:

All operations of transport, customs, handling and insurance of the product outside of our factories or stores are at the expenses and risks of the customer, and he must verify all shipment upon arrival whether freight. was prepaid or not. We reserve the right of invoicing the packing.

9 Retention of Title:

The products shall remain our property until payment in made in full. In the event when the delivered products are resold before full payment, all products of the same type, delivered during the last 6 months by Gala and owned by customer could be seized up to a value estimated on the current price list, and according the amount owed. In the even the customer is subject to any action from a third party, he must immediately inform the seller so that he can protect his rights. In addition, customer cannot give. as a guaranty property of the goods. Should the customer use the goods as collateral, GAIA Converter shall have. the right to take the goods away from the customer. All amount due then become Immediately payable without further notice. Customer must have a proper insurance to cover all risk related to delivered or said delivered goods (article 5). The above clauses can be placed In force as soon as any payment is outstanding.

Retention of title and collective procedure - the goods being sold under the clause of retention of title, the ownership transfer can only occur when full payment for all goods and accessories have been received. In the event that the customer is subject to a judiciary procedure, he must Inform GAIA Converter by registered mail with acknowledgement within 15 days of the start of such procedure, so that GAIA Converter can claim the goods being part of the company assets. In that respect the customer will make sure that goods can be well identified in his office or warehouse, or the price that they were sold. Customer will make due diligence in making sure that the terms of the insurance contract are fully respected, following a claim that the seller may place.

10 Applicable laws - Jurisdiction:

The sale of our products shall be regulated exclusively by the French law whatever final the destination of the product. Any action that may arise that cannot be settled in a friendly manner by the parties will be submitted to the Tribunal du Commerce located within district where GAIA Converter is registered. The present clause is stipulated in GAIA Converter's interest and

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only CAI can decide to renounce it. All actions generated by a sale between the parties shall be deemed to expire after 2 years from the date of its inception.

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BigBand Networks, Inc.  
 3 Azrleli Tower  
 Floor #36  
 Tel Aviv 67023

Phone: 03-607-1172  
 Fax: 03-607-1222  
 irisb@bigbandnet.com  
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BIGBAND  
 NETWORKS

ANNUAL AGREEMENT - YEAR 2001

February 05, 2001

Agreement between  
 - -----

BigBand Networks Ltd.

Contact: Iris Bar-Shlomo - Purchasing Manager  
 Ronit Goodman - Buyer

And

Enertec

Contact: Harry Mund

Enertec will provide Bigband the following power supply as agreed on their quotation from Feb.04.2001 and described below:

<TABLE>  
 <CAPTION>

BigBand P/N	Manufacture	Manuf. P/N	Annual Forecast		Lead Time	Unite Price \$
			From March 2001	Buffer Stock		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PS000002	Hitron	HVP350-490E	500	60	12-14 Wks	225.6

</TABLE>

Remarks:

1. Payment Terms: Net + 45 days from Invoice date, in accordance with the "Yatzig" rate of the dollar
  2. The price above includes shipments to BigBand's warehouse by supplier.
  3. One order of 500 pcs with split delivery over a period of 12 months.
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4. Enertec will accept to change delivery schedule at any time according to BigBand's request up to a period of 18 months from order date.
  5. Enertec will keep a buffer stock of 60 pcs for a time period of up to 18 months. This qty is not cancelable and part of the annual Forecast.
  6. Enertec will accept cancellation of partial qty, in which case a cancellation fee will apply. The cancellation fee is dependant on how much time in advance the cancellation was done, where in the production state are the cancelled units and can be 10% to 50% of cancelled units value, as will be agreed between Enertec and Bigband. In any case BigBand will have to pay for special components: PCB, transformer and other magnetics components. Please provide the list.  
 -----
  7. Bigband has the possibility to cancel an order but in this case the prices will be adjusted according to the qty ordered: 100-250 pcs - \$249 / 250-500 pcs - \$232.40.
  8. The units supplied will be identical to the units approved by BigBand.
  9. Penalty for delay on confirmed delivery: 2% per month, 10% max.

10. The supplier will provide BigBand a monthly report on the buffer stock, and will not use them without BigBand's written confirmation.
11. Enertec will do any repair needed in the Power Supply in Israel and without any additional charges.
12. If any changes will be required Enertec will share cost in accordance with negotiation.
13. Warranty: 12 months from delivery.
14. Prices above do not include VAT.
15. The amount set forth in this agreement shall be supplied to BigBand on an annual basis. Actual delivery of shipments shall be made in accordance with the annual order placed by Bigband or in accordance with the annual order placed by BigBand or in accordance to specific written request from BigBand, throughout the year.

Thank you for your cooperation.

Ronit Goodman  
Buyer

Iris Bar-Shlomo  
Purchasing Manager

Supplier's Signature

Name: Harry Mund

Date: 22/7/01





- 2.2 Without derogation from the generalities above, the Supplier guarantees that the product and/or its parts shall operate properly and in combination with all assemblies with the other systems (between them themselves), all as detailed in the technical specification, S.O.W. and the others documents of the present contract.
- 2.3 The Supplier guarantees all deficiencies, incompliance or other defects in the job or in the product ordered, or of any part thereof, derived from the planning or work or materials or services that are defective or do not comply with the level of the requirements as detailed in the technical specification, the S.O.W. and in the other conditions of the present contract.

To avoid any doubt:

The Supplier's guarantee refers to the compliance of the work or product to the instructions in the documents of the present contract (including the technical specifications and other technical documents by virtue of the present contract) or the quality or features required thereof, be it in detail or implied, as per correct and logical meaning as it appears from the above-mentioned documents.

#### 2.4 PERIOD OF THE GUARANTEE

2.4.1 The period of the guarantee as per the present contract shall be of eighteen months (18) as of the delivery of the product to the customer

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and in any case - not less than 12 months as of the date of operation of the product by the customer.

2.4.2 Without derogation from content in art. 1 above and in addition to the content therein, the period of the guarantee regarding the planning shall be of up to twenty (20) years as of the delivery of the product to I.A.I./MALAT by the Supplier.

2.5 By virtue of the Supplier's guarantee as per the present article, the Supplier undertakes to repair and/or to replace, as he shall see fit, any of the components found deficient, incompatible or having other defect as stated above (hereinafter: "the deficiency").

2.6 The Supplier shall start the organization in view of performance of the repairs and/or replacements as stated immediately upon having been informed of the failure. The Supplier undertakes, further to request from I.A.I./MALAT, to repair or replace the defective part as defined in the S.O.W. (and in any case the period of the repair shall not exceed 17 days as of the date of transfer of the product to the Supplier). The transport of the items from I.A.I./MALAT to the Supplier and back shall be made by the Supplier and on his account and liability. The Supplier shall transfer to I.A.I./MALAT together with the updated item, a report stating the nature of the failure, reason having caused it and steps taken further to the repair of the failure and prevention of repetition of such failure in other products. In addition, the Supplier shall report the failures in conformity with the instructions of the quality control section of I.A.I./MALAT.

2.7 When the Supplier had repaired and/or replaced within the framework of his obligations as per article 2.5 a defective component, the period of the original guarantee for the product repaired, as determined in article 2.4 above shall be prolonged for a period as of the date when the product had been received for repair in the Supplier's warehouse and until the supply of the repaired product to MALAT and additional thirty (30) days. If the period of the guarantee left as of the date of supply of the repaired product is less than twelve (12) months, then the Supplier shall prolong on

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his account the period of guarantee for repair and/or replacement as above to twelve (12) months regarding that same failure.

2.8 Repairs and/or replacements for the purpose of this article shall mean any action having as purpose to bring the unit or of any of its parts to normal operation and to have them perform it as well as the other features in conformity with the present contract, including: location of failure, transport, installation, connection, replacement of components, technical amendment, tuning, test, etc. The Supplier shall receive a confirmation from IAI/MALAT in advance and in writing on any change derived and/or required due to the repair and/or replacement as stated above. It is hereby clarified that subject to the maintenance regulations of the applications, IAI/MALAT customer shall do the utmost in order to isolate the defective product.

2.9 The transport of the items and their insurance, and in general, from the

customer's country to the site of delivery in view of repair or replacement, as the case may be, and back to the customer's country shall be made on the Supplier's account.

- 2.10 It is hereby agreed that in cases when the Supplier shall advance the transfer of any product whatsoever, the start of the period of the guarantee shall not be advanced thereon, and such shall start on the planned date. To avoid doubts, changes in the time-table, including advancement of the supply, are subject to approval, in writing and in advance, from MALAT.
- 2.11 To avoid any doubt, it is hereby agreed that in case it is not possible to repair any failure whatsoever in the product, the Supplier shall replace the product with the defect as mentioned, by another product that shall comply with the requirements in the specification.
- 2.12 Should a dispute arise between the sides if the failure in the product is within the framework of the seller's guarantee as stated in this chapter, MALAT shall be entitled to ask the seller to repair the failure within the period stated in article 2.6 above and the dispute shall be transferred to the decision of an arbitrator.

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#### 2.13 SYSTEMATIC DEFECT -----

- 2.13.1 The meaning of a systematic defect is an identical defect discovered during the period of the guarantee more than 3 times in any certain product or in more than at least 3 products in each type, even if these have successfully passed the acceptance tests.
- 2.13.2 If a systematic defect is discovered, as stated, the Supplier shall immediately act in view of "identification of the defect", i.e. shall take all steps as required in order to identify its source and reasons and in view of determination of the way of repair and its future prevention (including change in the acceptance tests) and shall transfer to IAI/MALAT a written report in the matter.
- 2.13.3 If a defect is identified as stated in par 2.13.1 above or if the defect is discovered more than 10 times, the Supplier undertakes to replace and/or repair on his account all the products at the disposal of IAI/MALAT, the customer of IAI/MALAT and in the Supplier's possession.
- 2.13.4 The Supplier shall start the organization in view of performance of the repairs and/or replacements, as stated, immediately upon having been informed of the systematic failure. The duration of the repair shall be fixed by the Supplier and confirmed by IAI/MALAT. In any case, the Supplier undertakes to complete the repair and/or replacement within a reasonable period of time.
- 2.13.5 All references to the Supplier's obligations regarding the systematic defects are in addition to his guarantee as per the other articles in this chapter.

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- 2.14 To avoid any doubt, it is hereby clarified that all expenses related to the implementation of the article on the Supplier's guarantee (article 2), including expenses on personnel, components, transportation and other expenses, are an integral part of the work and are included in the consideration.
- 2.15 The given guarantee shall be in favor of IAI/MALAT and/or the customer of IAI/MALAT.

#### ARTICLE 3: OVERALL SUPPORT FOR THE PRODUCT

During a period of twenty (20) years as of the delivery of the last item of hardware to the customer, the Supplier undertakes to:

- 3.1 To supply to MALAT and/or the customer maintenance services and repair as defined in the S.O.W. at prices agreed upon by the sides.
- 3.2 To sell to IAI/MALAT, at their request, and in conformity with the terms agreed upon by the sides from time to time, additional systems and/or sub-systems as well as additional parts and equipment. The prices and the payment terms to be agreed shall not be worse than those granted to the Supplier's preferential customers for these or similar items for same quantities or similar quantities.

In addition, the Supplier undertakes that the overall price of all spare parts, components of the product, shall not exceed in any case the present price of one unit of the product to MALAT. All spare parts ordered by MALAT

shall be supplied to MALAT per the general delivery terms and shipment for the products and shall be accompanied by suitable documentation.

The seller's obligation comprehends components manufactured by him and/or by his sub-contractors as well as components purchased by him and/or his sub-contractors as shelf components.

- 3.3 To execute, at the request of IAI/MALAT, changes in the product in conformity with the terms and prices agreed upon by the sides.

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- 3.4 To supply to MALAT, at its request, technical assistance for the operation, installation and maintenance of the product, as defined in the S.O.W. and per the terms agreed upon by the sides. The prices agreed shall not exceed those collected from the Supplier's preferential customers for the same work. The other terms also shall not be worse than those granted by the Supplier to his preferential customers.

- 3.5 The Supplier undertakes to supply to MALAT, for the customer's representatives, training and courses and/or information and assistance as to the "essence", or any other factor selected by MALAT to perform training for, referring to the operation and maintenance of the products in reference, in an extent and for terms as detailed in the S.O.W. and specification. The training shall be performed at the Supplier's and/or MALAT's factory and/or in the customer's country, all as detailed in S.O.W. If the training cannot be performed for the products destined to the customer, the Supplier undertakes to execute it by means of its training auxiliaries. Upon completion of the training, the Supplier shall issue to MALAT a graduation certificate signed by the Director of the Training Program or his deputy and counter-signed also by MALAT representatives.

- 3.6 The Supplier undertakes to supply to MALAT documentation and literature and/or information and assistance as to the "essence" or any other factor selected by MALAT, to prepare the literature all as defined in the S.O.W. and technical specifications. When the last copy of documentation and literature had been handed over, the Supplier shall issue to MALAT a completion certificate signed by the Director of the Training Program or his deputy and counter-signed also by MALAT representatives. The Supplier shall be liable entirely for the documentation during a period of five (5) years as of the date of issue of the completion certificate.

- 3.7 To inform IAI/MALAT on due time of any information in the Supplier's knowledge or at least two years in advance (the earliest among them) as to end of production of any component, sub-system and/or technologies required for the production and/or current maintenance of the product. Such notice shall be granted in order to enable IAI/MALAT a reasonable period of time for estimate of the situation and selection of the possibilities to

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purchase a suitable quantity of the said component or to replace it by a new component or development and production of new sub-system/s.

- 3.8 Without prejudice to the other instructions in the present contract, in case the Supplier shall not be able to continue the production of the product and its supply to MALAT due to reasons independent of him, the Supplier shall inform MALAT forty eight (48) month at least before the planned date when the Supplier intends to stop the work. In such a case the Supplier shall supply to MALAT or to MALAT proxies in Israel all the drawings, information, technical documentation (hereinafter: "the know-how") as well as the training and technical support required by MALAT or its proxies in order to manufacture the product in Israel. The Supplier undertakes to grant MALAT and/or its proxies permanent irrevocable right (proprietary right) and the license to manufacture the product and the spare parts in Israel, taking advantage of the know-how, and to sell the product and spare parts in Israel and in other countries in the world.

#### ARTICLE 4: COMPENSATION DUE TO BREACH OF PATENT

- 4.1 The Supplier declares and undertakes that during the performance of the present contract he shall not breach any patent or third party whatsoever right, be it proprietary or other, by virtue of the law or by virtue of a contract.

- 4.2 The Supplier declares and undertakes that if a claim should be filed against IAI/MALAT and/or any person on behalf of IAI/MALAT (hereinafter: "IAI/MALAT and their customers") due to breach of patent or right that a third party claims as his in relation with the present contract, the Supplier undertakes to ascertain the drop of this claim as soon as possible so that not to delay the performance of his obligations, in totality or partly, as per the present contract and/or to obtain permit to use the product and/or to replace immediately the product forbidden to use by an alternative product whose use is permitted and that shall comply with the requirements in the present contract.

- 4.3 The Supplier shall compensate and/or indemnify IAI/MALAT for any damage caused and derived to IAI/MALAT further to the breach of the Supplier's obligations as stated in art. 4.1 above.
- 4.4 IAI/MALAT shall inform the Supplier on any claim and/or argument derived from the breach of the Supplier's obligations as stated in art. 4.1 above, immediately after its first receipt by IAI/MALAT. The Supplier shall have the sole competence to conduct the defense against any claim and/or argument as stated. IAI/MALAT shall assist the Supplier in the conduct of the defense. The Supplier shall cover the expenses of IAI/MALAT in the grant of such assistance.
- 4.5 The content above refers to elements of the product that are not defined in the specification and that the Supplier had added on his own opinion only.

## ARTICLE 5: ARBITRATION

- 5.1 All disputes and arguments raised between the sides in relation with the instructions and the execution of the contract, except breach of confidentiality and safety, shall be transferred to the decision of one single arbitrator to be nominated by the Deputy Director of the Military Aviation Section.
- 5.2 The law of this article is identical to the law of an arbitration agreement as per the Law on Arbitration, 1968.
- 5.3 The sides undertake to continue and fulfill their obligations as per the contract also at the time of the arbitration and all its phases, but if otherwise instructed by the arbitrator.
- 5.4 The arbitrator shall decide in the dispute brought to his decision in conformity with the valid substantive law but shall not be beholden to conduct it as per the procedures and law of evidence fixed per any law. The decision of the arbitrator shall be final and definitive and shall commit both sides.

## ARTICLE 6: MALAT'S RIGHTS ON THE PRODUCT

- 6.1 To avoid any doubt, the Supplier is hereby transferring to MALAT/I.A.I. all rights that he had had and/or has and/or shall have on the product and on the file of the product, including the license to manufacture, copyright, intellectual assets, and/or any other right and MALAT/I.A.I. shall be entitled to make use of the product and its rights as well as to transfer any right whatsoever of a third party per its sole and definite discretion.

## ARTICLE 7: TECHNOLOGICAL IMPROVEMENTS

- 7.1 The Supplier undertakes to inform MALAT as to any technological improvement that the Supplier is developing on the product. After approval by the competent factors at MALAT, the Supplier undertakes to perform such improvements on the product per conditions determined by the sides.

## ARTICLE 8: BANK GUARANTEE

- 8.1 According to the policy at MALAT/I.A.I. and in order to ascertain any advance payment if paid to the Supplier before the performance of the Supplier's obligations as per the present contract, the Supplier shall deposit with MALAT/I.A.I. an irrevocable, unconditional bank guarantee on the whole sum of the advance payment and in conformity with the customary terms at MALAT/I.A.I. This bank guarantee shall be in supplement to the performance bond to be deposited by the Supplier with MALAT/I.A.I. as defined in the terms of the order.

## ARTICLE 9: MANAGEMENT OF THE PROJECT

- 9.1 Within 30 days after the signature of the present contract, the sides shall select the Directors of the projects for the period of execution of the present contract, in order to ascertain the efficient application of all terms in the contract. Should disputes arise between the two Project Directors as to the performance of the contract, the issue shall be jointly solved by meetings of both sides.

- 9.2 The Supplier shall transfer monthly to MALAT a detailed report to comprehend most of the particulars on the progression of performance of the contract and related to various problems occurring during its running.

## ARTICLE 10: MISCELLANEOUS

10.1

10.1.1 The Supplier declares and undertakes that there is no prevention and/or restriction, per law or other, to execute his obligations as per the present contract and that as well, there is no prevention and/or restriction, per law or other, to sell the products and any part thereof and/or to use these in Israel as well as abroad.

To avoid any doubt, the Supplier hereby declares and undertakes that he shall develop and manufacture for I.A.I./MALAT products for which there is no end-users restriction as well as there is no restriction of use by end-users in conformity with the content in SOW, after having successfully been tested as defined in the SOW, and above in quantities and per time-tables detailed in the present contract.

10.1.2 Should any prevention or restriction as stated in art. 10.1.1 above be created after the date of signature of the present contract, the Supplier shall inform it to I.A.I./MALAT immediately upon acknowledgement.

10.2 The Supplier undertakes not to sell and/or not to offer for sale and/or not to transfer in any way whatsoever to a customer and/or to any third party, directly or indirectly, the product, improved product, derivation of the product, parts and/or any service related thereof, when these are destined for MALAT systems. In view of the execution of this content, the Seller undertakes not to conduct any trade connections with the customer, by his initiative or through the initiative of the customer, but upon approval in advance and in writing from MALAT. If MALAT had approved the connections and/or the sale as stated above, the Seller shall act according to the instructions and terms fixed in the framework of the approval, including

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regarding the payment of remuneration to MALAT for the sale to the customer, in a rate fixed by MALAT in the said approval.

10.3 To avoid any doubt, it is hereby clarified that "indirect sale" as stated in art. 10.2 above, comprehends sale by the Supplier to a third party of the products/services detailed in the present contract, and sale of these products/services by that same third party to the customer.

10.4 The sides hereby declare that the wording of the present contract is the final and beholding form of the contract and such had been expressed jointly and on consent by both sides.

10.5 These contractual terms are in addition to any other terms in the present contract. Whenever there is contradiction between these contractual terms and the terms of the order, these contractual terms shall prevail.

10.6 Information, approval, instruction, supervision and/or test by MALAT to any of the operations performed by the Supplier and/or his sub-contractors as well as MALAT's participation and/or the customer's participation in the performance of the Supplier's tasks, by himself or through his sub-contractors, shall not exclude and/or derogate from the Seller's obligations, but if agreed upon in advance and in writing.

10.7 Delays by the Supplier in the performance of his obligations as per the present contract shall grant MALAT the right to change the time-table defined in the present contract. MALAT shall not be liable for any additional payment caused further to the Supplier's delay. The Supplier shall cover all banks and other costs derived from the incompliance with the time-table.

10.8 MALAT/I.A.I. shall be entitled to deduct and/or to offset any sum due to MALAT from the Supplier as per the present contract or by virtue of any other contract whatsoever or per law from the amounts that the Supplier is entitled to as per the present contract and/or from any defined debt due from I.A.I. to the Supplier.

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10.9 It is hereby agreed that all the Supplier's obligations as per the instructions in art. 2, 3, 4, 5, 6, 10.2, 10.3 of these contractual terms and art. 10,17 of the orders terms shall continue to be cast also after the completion of all the Seller's works as per the present contract and/or full receipt of the consideration by him and/or in case of termination of the present contract prior to its completion.

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CHRISTIE  
ELECTRIC CORP.

CHRISTIE ELECTRIC CORP.

DISTRIBUTOR AGREEMENT  
(WITH EXCLUSIVE AREA)

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DISTRIBUTOR AGREEMENT  
-----  
(WITH EXCLUSIVE AREA)

This DISTRIBUTOR AGREEMENT (this "AGREEMENT") is made and entered into as of this first day of January, 1998, by and between CHRISTIE ELECTRIC CORP., a California corporation ("MANUFACTURER"), and ENERTEC, a ("DISTRIBUTOR").

R E C I T A L S :

A. Manufacturer is engaged in the business of manufacturing and selling, among other things, those certain products including battery chargers/analyzers, power supplies and accessories, all as more particularly described in Exhibit A attached hereto (collectively, the "PRODUCTS").

B. Distributor possesses technical experience and a marketing organization for the promotion, sale and service of the Products in the geographic region described herein.

C. Manufacturer desires to utilize Distributor's expertise and experience and to appoint Distributor as its distributor of the Products, and Distributor desires to accept such distributorship, for the consideration and on the terms and conditions hereinafter set forth.

NOW, THEREFORE, the parties hereto do hereby agree as follows:

1. APPOINTMENT. Subject to the remaining provisions of this Agreement, Manufacturer hereby appoints Distributor as its authorized distributor of the Products for the markets identified in Exhibit B hereto (the "MARKETS") within the territory (collectively, the "TERRITORY") consisting of (a) the entire world with the exception of the geographical areas and markets described in Section 1.1 below (the "NON-EXCLUSIVE AREA") and (b) the geographical areas identified in Exhibit B attached hereto (the "EXCLUSIVE AREA"), and Distributor hereby accepts such appointment, on the basis of each and all of the covenants, agreements, terms and conditions of this Agreement.

1.1 Territorial Exclusions. Manufacturer reserves to itself the exclusive right to market and sell the Products in or to the geographical areas described in Exhibit C attached hereto (the "EXCLUDED COUNTRIES") and to the United States, or any agency or instrumentality thereof or any contractor or subcontractor with respect to a project of any of the foregoing (collectively, the "US GOVERNMENT"), and to appoint distributors or representatives to do so. Distributor acknowledges and agrees that the Excluded Countries and the US Government shall be deemed excluded from the definition of "Territory" hereunder and that Distributor shall not be entitled to any commission, discount or any other compensation on account of any Product sales in or with respect to any of the Excluded Countries or the US Government.

1.2 Exclusivity. Distributor acknowledges that its appointment under Section 1 hereof is exclusive with respect to the Exclusive Area and



non-exclusive with respect to the Non-Exclusive Area. Accordingly, except as provided in this Section 1, Manufacturer agrees that during the term of this Agreement, (a) Manufacturer will not directly or indirectly distribute or sell any of the Products in, for shipment to or (to the best of its ability) for resale at wholesale in the Exclusive Area, (b) Manufacturer will not appoint any other distributor or sales representative to do so and (c) Manufacturer will refer exclusively to Distributor all orders for Products received by Manufacturer from any customer within the Exclusive Area. Notwithstanding the foregoing, if Distributor fails to perform its obligations under Section 3.4

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hereof, then, in addition to any other rights or remedies provided hereunder, at law or in equity, Manufacturer may declare Distributor's appointment under Section 1 hereof to be non-exclusive. In such event, Manufacturer may appoint other persons to be non-exclusive distributors within the Exclusive Area on terms no more favorable than those contained herein, and shall also have the right itself to distribute and sell the Products in the Exclusive Area.

1.3 Changes to Territory. Manufacture reserves the right, from time to time upon one hundred twenty (120) days' notice to Distributor, to modify the Territory, including the right to amend Exhibit C to exclude additional geographic regions, all as Manufacturer may, in the exercise of its sole discretion, deem appropriate.

## 2. OBLIGATIONS OF MANUFACTURER

2.1 Manufacture of Products. Manufacturer shall use reasonable efforts to maintain the necessary manufacturing capability to fill all orders for Products received from Distributor and accepted pursuant to the provisions of this Agreement. In the event of a Product shortage for any reason, Manufacturer shall have the right to allocate or apportion available Products among its customers as Manufacturer, in the exercise of its discretion, deems appropriate, without incurring any liability to Distributor. Manufacturer reserves the right to add to, modify, alter, improve or change the manufacture or sale of any or all of the Products upon thirty (30) days' prior notice to Distributor and to discontinue the manufacture or sale of any or all of the Products upon one hundred twenty (120) days' prior notice to Distributor.

2.2 Training. Manufacturer shall make available on a quarterly basis, a tuition free sales and technical product training and instruction session in English for Distributor's employees at Manufacturer's facility and scheduled at least thirty (30) days in advance. Distributor shall bear all expenses, including without limitation transportation, food and lodging expenses, incurred by Distributor's employees during the training period.

2.3 Documentation. Manufacturer shall furnish Distributor with such quantities of English language service manuals, user manuals, catalogs, drawings, specifications, technical information, promotional material and other information and literature as Manufacturer in its discretion shall deem appropriate to assist Distributor in the effective distribution, marketing and sale of Products within the Territory.

2.4 Product Warranty. Manufacturer warrants that the Products delivered to Distributor hereunder shall be free from defects in material and workmanship under normal use and service and shall conform to Manufacturer's published specifications, for a period of eighteen (18) months from the date of shipment to Distributor.

2.4.1 Warranty Remedies. Distributor's exclusive remedy under the warranty provided by this Section 2.4 shall be to obtain the repair or replacement, at Manufacturer's discretion and in accordance with the provisions of this Section 2.4.1, of any Product which does not conform to such warranty. Distributor shall provide prompt written notice to Manufacturer stating the nature and date of the defect and serial number and date code of the subject Product, and shall comply with such additional procedural requirements as Manufacturer shall prescribe from time to time. In response to any such notice, Manufacturer shall (a) reimburse Distributor for parts necessary to repair any Product determined by Manufacturer to be defective (or supply such parts to Distributor, free of charge), if repairable by Distributor, or (b) provide Distributor with a return authorization number, pursuant to Manufacturer's return sales policy, if Distributor is not capable of repairing any such defective Product. Distributor shall bear all shipping, customs and clearance charges incurred in returning any defective or non-conforming Products or parts to Manufacturer should Manufacturer request their return. Manufacturer shall

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bear all shipping, customs and clearance charges incurred in shipping to Distributor the repaired or replacement parts or Products, and shall reimburse Distributor for all shipping, customs and clearance charges incurred by Distributor in returning to Manufacturer any Products determined by Manufacturer to be defective. Repair or replacement of defective parts or Products returned after the warranty period specified above shall be charged to Distributor at

Manufacturer's then-current prices, and Distributor shall pay all shipping, customs and clearance charges arising from any shipment of such replacement parts or Products.

2.4.2 Limitations. EXCEPT AS EXPRESSLY STATED HEREIN, THERE ARE NO WARRANTIES, EXPRESS OR IMPLIED, BY OPERATION OF LAW OR OTHERWISE, PERTAINING TO THE PRODUCTS SOLD UNDER THIS AGREEMENT. MANUFACTURER DISCLAIMS ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. IN NO EVENT SHALL MANUFACTURER BE LIABLE TO DISTRIBUTOR, IT AGENTS, REPRESENTATIVES, EMPLOYEES, CUSTOMERS OR ANY OTHER THIRD PARTY, FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, INCLUDING WITHOUT LIMITATION LOSS OF USE, LOSS OF REVENUE OR LOSS OF PROFIT, IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT OR THE EXISTENCE, FURNISHING OR FUNCTIONING OF ANY ITEM OR SERVICES PROVIDED FOR IN THIS AGREEMENT OR FROM ANY OTHER CAUSE, INCLUDING WITHOUT LIMITATION CLAIMS BY THIRD PARTIES, EVEN IF MANUFACTURER HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. MANUFACTURER'S SOLE LIABILITY OF ANY KIND, WHETHER ON WARRANTY, CONTRACT OR NEGLIGENCE GROUNDS, WITH RESPECT TO THE PRODUCTS FURNISHED UNDER THIS AGREEMENT SHALL BE LIMITED TO THE REPAIR OR REPLACEMENT OF ANY DEFECTIVE PARTS; PROVIDED, HOWEVER, THAT (A) MANUFACTURER'S WARRANTY SHALL NOT EXTEND TO ALTERED EQUIPMENT OR CONSUMABLE PARTS AND (B) MANUFACTURER SHALL BE UNDER NO OBLIGATION TO MAKE REPAIRS OR PROVIDE REPLACEMENTS NECESSITATED IN WHOLE OR IN PART BY CATASTROPHE, FAULT OR NEGLIGENCE OF THE USER OR ANY THIRD PARTY, IMPROPER OR UNAUTHORIZED INSTALLATION OR USE OF PRODUCTS, USE OF PRODUCTS IN A MANNER FOR WHICH THEY WERE NOT DESIGNED OR INTENDED OR BY CAUSES EXTERNAL TO THE SUBJECT PRODUCT, INCLUDING WITHOUT LIMITATION SHIPPING DAMAGE OR POWER FAILURE.

### 3. OBLIGATIONS OF DISTRIBUTOR

3.1 Generally. Distributor shall at all times at its own cost and expense use its best efforts and all due diligence energetically and aggressively to develop the Exclusive Area, to promote the sale of the Products therein and to enhance the reputation and goodwill associated with the Products. In connection therewith, Distributor shall maintain facilities suitable for performance of all its obligations hereunder; shall provide aggressive, dedicated, continuous representation within the Exclusive Area by means of actual sales personnel contact with existing and prospective customers of the Products in the Exclusive Area; shall hire and maintain a sales staff (or contract with sales representatives) sufficient in number, qualifications and training to aggressively promote and market the Products in the Exclusive Area; shall actively promote the Products in advertising, direct mail and trade shows, in each case in, and directed to customers in, the Exclusive Area; and shall promptly follow up on all leads provided by Manufacturer with respect to customers in the Exclusive Area, providing Manufacturer with copies of all relevant communications.

3.2 Conduct of Business and Expenses. Distributor shall conduct its business consistent with the provisions of this Agreement and all applicable laws which may in any way relate to the importation, sale or distribution of the Products in the Territory. Distributor shall maintain in effect at all times

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the necessary registrations with any and all governmental agencies, commercial registries, chambers of commerce and other offices which may be required under local law in order to conduct commercial business in the Territory. Distributor shall be responsible for all expenses incurred in connection with the operation of its business and its activities hereunder, including without limitation all expenses for appropriate and customary advertising, promotional items and trade shows, and all communication, travel and accommodations; and shall be responsible for all acts, omissions and expenses of its officers, agents, employees and representatives.

3.3 Sales Outside Territory. In no event shall Distributor directly or indirectly distribute or sell any of the Products in or to, or for shipment to or (to the best of its ability) for resale in, the Excluded Countries or the US Government, or otherwise outside the Territory or the Markets, in each case, without either the prior written consent of Manufacturer or, in the case of sales to customers in an Excluded Country, a written agreement providing adequate compensation for the sales representative or distributor for such Excluded Country (as listed in Exhibit C hereto). Without limiting the applicability of the foregoing, in the event Distributor directly or indirectly sells any Products to the US Government or to a customer in any Excluded Country without the prior written consent of Manufacturer (or alternatively, in the case of sales to customers in an Excluded Country, a written agreement with the respective sales representative or distributor), then, in addition to any remedies available to Manufacturer at law or in equity (a) the sale of such Products will not count toward Distributor's Rebate (as defined in Section 4.7 hereof); (b) Manufacturer may, at its option, either (i) refuse to supply any such Products to Distributor or (ii) (A) in the case of sales to the US Government, charge Distributor a 25% surcharge on such Products (based on Net Purchase Price), (B) in the case of sales to a customer in an Excluded Country with a sales representative (as indicated in Exhibit C), require Distributor to pay to Manufacturer the full commission payable to the

relevant sales representative for such Excluded Country, as invoiced by Manufacturer to Distributor and to be paid by Manufacturer directly to such sales representative, and (C) in the case of sales to a customer in an Excluded Country with a distributor (as indicated in Exhibit C), require Distributor to pay to Manufacturer a 25% surcharge on such Products (based on Net Purchase Price), as invoiced by Manufacturer to Distributor and to be paid by Manufacturer directly to the distributor for such Excluded Country; and (c) Manufacturer may, at its option, terminate this Agreement on 10 days' notice under Section 6.2 hereof. Distributor acknowledges and agrees that the provisions of this Section 3.3, including the payment of the amounts described in clause (ii) above, are reasonable and necessary to maintain an orderly system of product distribution and to adequately compensate Manufacturer or the respective sales representatives or distributors, as the case may be, for marketing efforts and aftermarket support and service attributable to such sale.

3.4 Product Purchase Requirements. Distributor shall order and purchase from Manufacturer no less than the quantities of Products set forth in Exhibit D attached hereto and such additional quantities of Products as Manufacturer may reasonably prescribe for periods following the first year of the term of this Agreement. Distributor acknowledges that failure to satisfy such minimum purchase requirements shall constitute cause for termination of this Agreement in accordance with the provisions of Section 6.2 hereof.

3.5 Minimum Stocking Requirements. Distributor agrees, during the continuance of this Agreement, to maintain a sufficient stocking level of the Products to fulfill adequately the requirements of all customers and prospective customers in the Territory. Distributor specifically agrees that it shall at all times maintain the minimum inventory levels specified in Exhibit D hereto. Distributor acknowledges that failure to satisfy such minimum inventory requirements shall constitute cause for termination of this Agreement in accordance with the provisions of Section 6.2 hereof.

3.6 Warranty Service; Repair and Rework. Distributor shall maintain the facilities, spare parts and skilled personnel necessary to provide

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prompt repair and rework or warranty service for Products in the Exclusive Area. Distributor shall notify Manufacturer of any warranty claims which may come to Distributor's attention. Subject to the provisions of Section 2.4 hereof, Distributor shall be solely responsible for any warranty with respect to the Products made to Distributor's customers, and Distributor shall indemnify Manufacturer for any losses or damages suffered by Manufacturer in connection therewith. With respect to any warranty claims covered by Manufacturer's warranty, Distributor shall fully comply with the requirements of Section 2.4 hereof and the additional procedural requirements from time to time prescribed by Manufacturer, and Manufacturer shall have no obligation to recognize any such claims unless the prescribed procedures are fully complied with by Distributor.

3.7 Training. Distributor shall, for each location from which it will be performing warranty or repair services, at all times maintain a minimum of one repair technician which has been certified by Manufacturer through a training course offered pursuant to Section 2.2 hereof, such certification to be effective for a period of three years from the granting thereof.

### 3.8 Reporting Requirements.

3.8.1 General Reporting. Upon request of Manufacturer, Distributor shall furnish to Manufacturer accurate and complete written reports regarding its inventory levels and its sales and promotional activities with respect to the Products in the Territory. Distributor shall promptly report to Manufacturer all suspected Product defects or safety problems and all end-user complaints, and shall provide reports and supporting documentation with respect to any warranty service performed by Distributor.

3.8.2 Annual Reports. Distributor shall furnish Manufacturer, no later than the first (1st) day of December of each year during the term of this Agreement, with (a) a current list of all products offered for sale by Distributor, including copies of all catalogs or other sales materials, (b) a current list of all sales representatives, dealers and other authorized resellers of Distributor, including office addresses, (c) a written forecast of Product sales and purchase requirements for the upcoming calendar year, in sufficient detail (whenever possible) to show prospective customers, Product models, expected order dates and probability of receiving orders, (d) a list of showing customers designated by either Distributor or Manufacturer as target accounts for the upcoming calendar year (the "TARGET ACCOUNTS") and an outline of a marketing plan for pursuing such Target Accounts, and (e) such other information as Manufacturer may request.

3.8.3 Quarterly Reports. Distributor shall furnish Manufacturer, no later than the tenth (10th) day of each calendar quarter during the term of this Agreement, with (a) a written report on all sales during the preceding calendar quarter, grouped by country, with supporting documentation,

(b) progress report with respect to any contracts involving sales of over \$50,000 in the aggregate being pursued by Distributor, (c) an update on the forecasts and Target Account information delivered pursuant to clauses (c) and (d) of Section 3.8.2 above, including in the case of Target Accounts, the customer name, Products presented and dates of presentations, (d) a written report on current inventory levels for the Products, and (e) such other information as Manufacturer may request.

3.9 Inspection. Distributor shall permit Manufacturer and such of its agents, employees or representatives as it may designate to enter and examine Distributor's facilities and places of business and to inspect its inventories, service records and other relevant documents related to the Products at any reasonable time.

3.10 Indemnification. Distributor shall indemnify, defend and hold harmless Manufacturer and Manufacturer's officers, directors, shareholders, affiliates, agents, representatives, employees, successors and assigns

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(collectively, the "RELATED PERSONS") from and against any and all liabilities, losses, damages, injuries, costs, expenses, causes of action, claims, suits, demands, legal proceedings, assessments and similar matters, including without limitation attorneys' fees, resulting from or arising out of (a) the failure of Distributor to fully and completely perform and comply with its obligations hereunder, (b) any use of the Products in combination with other products or components not furnished by Manufacturer or (c) any act or omission of Distributor or any of Distributor's Related Persons. Manufacturer shall have the right, in its sole discretion, to offset against any amounts due and payable to Distributor, any amounts due and payable to Manufacturer pursuant to this Section. In the event that any cause of action, claim, suit or other legal proceeding is brought against Distributor in connection with any of the Products, or the sale or use thereof, Distributor shall promptly notify Manufacturer thereof, Manufacturer may elect to defend such matter by counsel selected by Manufacturer and, in the event of such defense, Distributor shall fully cooperate with Manufacturer and its counsel.

3.11 Insurance. Distributor shall obtain and maintain a policy of comprehensive business liability insurance, including without limitation public liability and property damage insurance, issued by an insurer and with limits of liability reasonably acceptable to Manufacturer. Such policy shall name Manufacturer as an additional insured and shall be cancelable only after thirty (30) days' written notice to Manufacturer. Distributor shall from time to time furnish Manufacturer with a certificate of insurance evidencing such insurance.

#### 4. ORDERING AND SHIPMENT OF PRODUCTS

4.1 Purchase Orders. Each order by Distributor for shipment of Products shall be by firm purchase order in writing, with telexed or facsimile purchase orders confirmed within one (1) week, specifying (a) the Products ordered by Distributor, (b) the quantity of each Product to be purchased, (c) the Net Purchase Price of the Products ordered, (d) requested delivery dates, and (e) shipping instructions. Manufacturer may, at its option, accept any such purchase order in whole or in part by written acknowledgment of purchase order to Distributor or by actual delivery in accordance with the purchase order.

4.2 Price of Products. The purchase price to be paid by Distributor for each type of Product, including all packaging and shipping materials (the "NET PURCHASE PRICE"), shall be calculated based on the general Product prices specified in Exhibit E attached hereto less any applicable discounts specified in Exhibit F attached hereto, as such Exhibits may be amended from time to time. Such prices and discounts may be adjusted by Manufacturer upon sixty (60) days' prior written notice to Distributor and shall be applicable to new purchase orders from Distributor received by Manufacturer after such date. All Product prices shall be exclusive of any applicable customs charges and duties; sales, use, privilege, excise and similar taxes; and transportation, rigging, drayage, handling charges, insurance costs and other expenses associated with the delivery of the items ordered to the destination specified by Distributor.

4.3 Terms and Conditions. All Products purchased by Distributor shall be sold F.O.B. Manufacturer's facility and shall be subject to such additional terms and conditions of sale as shall be specified on the individual acknowledgment form or invoice form issued by Manufacturer in response to any order from Distributor. In the event of conflict between the terms of such individual acknowledgment form or invoice and the terms of this Agreement, the terms of this Agreement shall govern. Any other terms and conditions, including without limitation standard printed terms and conditions appearing on Distributor's purchase order form, shall be wholly inapplicable to this Agreement and to the individual orders hereunder.

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4.4 Payment Requirements. Payment of the net invoice price for all Products purchased by Distributor shall be received by Manufacturer within forty-five (45) days after Manufacturer transfers finished goods to Distributor's designated carrier or freight forwarder. Each such payment shall be made in United States currency by bank transfer to such bank account as Manufacturer may from time to time designate in writing, and shall be accompanied by a remittance advice identifying the specific items paid. In the event that Distributor fails to pay Manufacturer in a timely manner as required by this Section 4.4, any unpaid balance shall be subject to a late charge at the rate of two percent (2%) per month for each month or portion thereof during which such payment is overdue or, if lower, the highest rate then permitted by applicable law. In addition, Manufacturer may, at its option, suspend all shipments to Distributor (including stoppage in transit), may require that future shipments be paid for in advance or may make any other credit arrangements satisfactory to Manufacturer in its sole discretion. Manufacturer's rights pursuant to this Section 4.4 shall be cumulative and without prejudice to Manufacturer's right to declare Distributor in default under this Agreement by reason of such delinquency, and Manufacturer shall have the right to avail itself of any and all other remedies to which it may be entitled hereunder, at law or in equity.

4.5 Delivery; Risk of Loss. Delivery of any order hereunder shall be deemed to occur upon Manufacturer's transfer of the Products to the carrier or freight forwarder for shipment to Distributor. Title to and risk of loss of all Products sold hereunder shall pass to Distributor upon such delivery, and the risks of loss, damage or delay in transit shall be solely the responsibility and risk of Distributor. All claims for breakage and damage should be made to the carrier, but Manufacturer will render all reasonable assistance in securing satisfactory adjustment of such claims.

4.6 Nonconforming Shipments. Manufacturer shall have no liability for any shortage or other discrepancy in any shipment of Products hereunder unless Distributor sends Manufacturer notice, within fifteen (15) days after actual receipt of the shipment at Distributor's facility, that the shortage or discrepancy existed when the shipment was received. In the event a shipment is nonconforming by reason of any defect in a Product contained in such shipment and the defect cannot reasonably be corrected by Distributor, Distributor shall so inform Manufacturer within such fifteen (15) day period, and Manufacturer shall undertake corrective action at its expense, unless the defect resulted from transit damage, damage following delivery or installation of the Products or Distributor's fault.

4.7 Rebates. At the end of each calendar year during the term of this Agreement, Manufacturer shall provide to Distributor an annual rebate (the "REBATE") calculated pursuant to the rebate terms and conditions in Exhibit G hereto, as such terms and conditions may be amended by Manufacturer in its sole discretion for any calendar year upon thirty (30) days' written notice to Distributor prior to the start of such calendar year.

## 5. INTELLECTUAL PROPERTY MATTERS

5.1 Trademarks. During the term of this Agreement, Manufacturer grants to Distributor the right to use the trademarks and trade names that Manufacturer may prescribe from time to time ("MANUFACTURER'S TRADEMARKS") only for the purpose of sales or sales promotion of the Products.

5.1.1 Use. During the term of this Agreement, Distributor shall have the right to indicate to the public that it is an authorized distributor of Manufacturer's Products and to advertise (within the Territory) such Products under Manufacturer's Trademarks. Nothing herein shall grant Distributor any right, title or interest in Manufacturer's Trademarks. At no time during or after the term of this Agreement shall Distributor challenge or assist others to challenge Manufacturer's Trademarks or the registration thereof or attempt or assist to attempt to register any trademarks, marks or trade names confusingly similar to those of Manufacturer.

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5.1.2 Approval of Representation. Unless they be exact copies, representations of Manufacturer's Trademarks that Distributor intends to use shall first be submitted to Manufacturer for approval (which shall not be unreasonably withheld) of design, color, and other details.

5.1.3 Trademarks on Products. Distributor shall market and sell the Products without removing, adding to, or altering any labels, trade names, trademarks, notices, labels, serial numbers or other identifying marks, symbols or legends affixed to any of the Products or their containers or packages, without the prior written consent of Manufacturer, which consent may be withheld in Manufacturer's sole discretion.

5.2 Proprietary Information. Distributor hereby acknowledges that certain of the information provided to Distributor by Manufacturer hereunder, including without limitation any software incorporated therein, Product drawings, specifications, technical information, customer contacts or lists and other information and literature, constitutes proprietary and confidential trade

secret information of Manufacturer. Distributor shall not disclose any such trade secrets, directly or indirectly, or use them in any way, either during the term of this Agreement or at any time thereafter, without the prior written consent of Manufacturer. Any and all such trade secrets shall remain the sole and exclusive property of Manufacturer and shall be returned to Manufacturer immediately upon expiration or termination of this Agreement for any reason.

5.3 Conflicts of Interest; Competitive Products. To avoid any conflict between its other business activities and its obligations to Manufacturer hereunder, Distributor shall not, during the term of this Agreement, without the prior written consent of Manufacturer, (a) solicit the sale of, promote the sale of, sell, exhibit for sale, distribute or manufacture any product competitive with or of like nature to any of the Products, (b) act as distributor, representative, agent, dealer or in any other capacity on behalf of the manufacturer, importer or distributor of any such competitive or similar product, (c) do any act to impair, prejudice or destroy the goodwill of Manufacturer or the relationship or dealing between Manufacturer and any customer or between Manufacturer and any of its employees or (d) assist any other person, firm or corporation in any such acts.

5.4 Infringement. Manufacturer represents and warrants that all Products shall be free from claims of patent, copyright and trademark infringement under the laws of the United States or any of its states and shall indemnify and hold harmless Distributor from and against all required payments of compensation, settlement and royalties to any third party arising in connection with any suit, action or other proceeding against Distributor based on any claim of infringement of such laws. In the event of any suit, action or other proceeding against Distributor involving any claim of infringement based upon Distributor's sale of the Products, whether based on laws of the United States or any other country, Distributor shall promptly send Manufacturer copies of all papers served in such suit, action or other proceeding. At its option, Manufacturer may, at its sole cost and expense, defend all claims of infringement in any such suit, action or other proceeding. Distributor shall provide testimony and other evidence in any such suit, action or other proceeding, and shall otherwise cooperate with Manufacturer in any way necessary or desirable in order to permit Manufacturer successfully to defend such suit, action or other proceeding.

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## 6. TERM AND TERMINATION

6.1 Term. Subject to the remaining provisions of this Section 6, the term of this Agreement shall commence on the date hereof, shall continue in effect until December 31, 1998, and shall continue thereafter for successive periods of one (1) calendar year each unless either party provides notice to the other party at least sixty (60) days prior to the expiration of the then current term of its election not to continue this Agreement upon expiration of such current term.

6.2 Termination Without Cause. Either party may terminate this Agreement in its entirety or with respect to any of the Products covered hereby at any time, without cause on a minimum of sixty (60) days' prior written notice from one party to the other.

6.3 Termination for Cause. Manufacturer may terminate this Agreement effective immediately upon delivery of notice to Distributor in the event of the occurrence of any of the following: (a) Distributor's failure to perform or observe any material provision of this Agreement within thirty (30) days (ten (10) days in the case of a breach of Section 3.3) after receipt of written notice of default; (b) Distributor becomes bankrupt or insolvent or any agreement or court proceeding is initiated relating to Distributor's financial instability; (c) failure to maintain Distributor's account on a current basis and in accordance with Manufacturer's terms and conditions of sale; (d) failure by Distributor, within five (5) days following notification by Manufacturer, to replace with cash or a cashier's check, any check provided to Manufacturer by or on behalf of Distributor which has been returned from the bank on which the check was drawn without payment to Manufacturer; (e) conviction in any court of competent jurisdiction of Distributor or any principal officer or manager of Distributor, of any crime tending to affect adversely the ownership, operation, management, business or interest of Distributor or Manufacturer; (f) failure of Distributor to obtain or maintain any license or approval required by law; or (g) any dispute, disagreement or controversy between or among partners, managers, officers or shareholders of Distributor which, in the opinion of Manufacturer, adversely affects the operation, management or business of Distributor and is not resolved within thirty (30) days after notice is given to Distributor by Manufacturer.

6.4 Consequences of Termination. Upon the expiration or termination of this Agreement for any reason, (a) all sums which either party then owes to the other hereunder shall become immediately due and payable, (b) all remaining obligations of Manufacturer to make deliveries and sales hereunder shall immediately cease, (c) Distributor shall immediately discontinue any use of Manufacturer's Trademarks and any related marks or names, and shall cease to

hold itself out as an authorized distributor of Manufacturer, (d) Distributor shall immediately return to Manufacturer all catalogs, drawings, specifications, technical information, promotional material and other information and literature concerning the Products as have previously been furnished to Distributor by Manufacturer, (e) Manufacturer may, at its option (i) require Distributor to immediately return to Manufacturer all Products, regardless of age or condition, then on hand and not subject to existing customer orders, subject to an obligation by Manufacturer to repurchase all new, unused and undamaged Products of current manufacture returned in their original containers at the purchase price paid by Distributor and all other returned Products of current manufacture at an amount equal to seventy percent (70%) of the price at which such Products were last offered to Distributor by Manufacturer or (ii) allow Distributor to continue selling such Products on hand for six (6) months after the date of termination and (g) the provisions of Sections 5.2 and 7.11 hereof shall survive and Distributor shall continue to perform and observe such provisions as if such termination had not occurred.

6.5 No Liability. Manufacturer shall not be liable by reason of the termination, expiration or nonrenewal of this Agreement to Distributor for compensation, reimbursement or damages on account of any loss of prospective profits on anticipated sales or on account of expenditures, investment, leases,

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or other commitments relating to the business or goodwill of Distributor. Distributor agrees to indemnify Manufacturer from all claims of its agents, employees or representatives for similar compensation, reimbursement or damages.

## 7. MISCELLANEOUS

7.1 Relationship of Parties. Manufacturer and Distributor each hereby acknowledges that it is an independent entity and is not subject to the control of the other party hereto in any manner except as specifically provided in this Agreement. Nothing herein shall be construed to make the parties hereto partners or joint venturers, or to render either party liable for any of the debts or obligations of the other party hereto.

7.2 Foreign Corrupt Practices. Distributor represents that it has read and is familiar with the Foreign Corrupt Practices Act of 1977 and will comply with said act and is aware of the sensitive nature of international military contracting and the types of impropriety which have received widespread publicity concerning some such contracts. Distributor will at all times conduct the work under this Agreement so as to strictly abide by the laws of the United States and the customer's country, and will at all times avoid any situation which would cause any representative or agent of the government to appear to have a conflict of interest. Distributor will not share any commission or fee paid hereunder with any third party or parties other than Distributor's designated in-country representative(s).

7.3 Export Regulation Requirements. Distributor understands that the United States Law requires Manufacturer to report certain information to the United States Government concerning payments made in connection with foreign sales of defense articles or services. Distributor agrees to give a written statement disclosing all political contributions, fees, or commissions in respect to such sales.

A "political contribution" includes any loan, gift, donation, or other payment offered directly or indirectly whether in cash or in kind, value \$1,000.00 or more to or for the benefit of any candidate, committee, political party, political faction or government or employee or office or official thereof to secure the conclusion of a sale. (This does not include charges required to be paid by applicable law.)

A "fee or commission" includes any loan, gift, donation, or other payment valued at \$1,000.00 or more offered directly or indirectly in cash or in kind to secure a sale.

These requirements are explained in detail in title 22, Chapter 1, Sub-chapter in Part 130 of the U.S. Code of Federal regulations. Distributor agrees to comply and assist Manufacturer in complying with the U.S. Law. The inclusion of the provision in the Agreement should not be construed as approval of any such expenditures and they have been specifically forbidden under Article 19. This provision will survive any termination of the Agreement.

7.4 Notices. Any and all notices and communications hereunder shall be in writing and shall be deemed to have been duly given when delivered personally, at the time of receipt if by telegram, telex, facsimile or similar means of communication, or seven (7) days after mailing when deposited in the United States or Territory mail, first class postage prepaid, addressed to the parties at the addresses set forth immediately following the signatures of the parties hereto or to such other addresses as either of the parties hereto may from time to time in writing designate to the other party hereto.

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7.5 Time. Time is of the essence of this Agreement with respect to each and every provision of this Agreement in which time is a factor.

7.6 Force Majeure. If either Manufacturer or Distributor shall be unable, by reason of any event referred to herein as "force majeure," to carry out its obligations under this Agreement, either wholly or in part, the party so failing shall give notice and full particulars of such event or events in writing to the other party as soon as possible after the occurrence of any such event, and thereupon such obligation shall be suspended during the continuance of such cause which, however, shall be remedied or removed with all possible dispatch; and the obligations, terms and conditions of this Agreement shall be extended for such period as may be reasonably necessary for the purpose of making good any suspension so caused, provided that no claim for suspension shall be made by either party when the period of suspension so caused shall be less than ten (10) consecutive business days. The events referred to herein as "force majeure" shall include fire, casualty, unavoidable accident, failure of the usual sources of supply, strikes, labor conditions, lockouts, war, acts of God, the enactment of any federal, state or municipal law or ordinance or the issuance of any executive or judicial order, whether federal, state or municipal, or of any other legally constituted authority, accidents to machinery or any other cause not within the control of the party claiming relief from any of the requirements of this Agreement and that, by the exercise of due diligence, the party is unable to prevent or overcome. Mere inability to make any payment of money required hereunder shall not constitute an event of "force majeure."

7.7 Waiver. No delay or failure by either party to exercise any right, power or remedy with regard to any breach or default by the other party under this Agreement shall impair any such right, power or remedy and shall not be construed to be a waiver of any breach or default of the same or any other provision of this Agreement. Any waiver, permit, consent or approval of any kind or character on the part of any party of or to any breach or default by the other party shall be effective only if in writing and shall not be construed to be a waiver, permit, consent or approval of or to any succeeding breach or default or a waiver of any provision of this Agreement.

7.8 Assignment. This Agreement may not be assigned in whole or in part by Distributor without the prior written consent of Manufacturer. Notwithstanding the foregoing, Distributor may, upon Manufacturer's consent (not to be unreasonably withheld), delegate and/or subcontract its rights and obligations hereunder to any of its affiliates, provided (a) such delegation and/or subcontracting shall not relieve Distributor from any of its obligations hereunder, (b) each such affiliate agrees in writing to be bound by the terms of this Agreement and (c) Distributor promptly notifies Manufacturer of such delegation and/or subcontracting and provides Manufacturer with a copy of the agreement executed by such affiliate. Manufacturer may, at its sole discretion, refuse consent to any assignments to non-affiliates. For the purposes of this Section, an "affiliate" of Distributor is any entity controlling, controlled by or under common control with Distributor.

7.9 Successors. Subject to the provisions of Section 7.8 hereof, the covenants, agreements, terms and conditions contained in this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

7.10 Applicable Law; Severability. The existence, validity, construction and operational effect of this Agreement, and the rights and obligations hereunder of each of the parties hereto, shall be determined in accordance with the laws of the State of California, provided that any provision of this Agreement which may be prohibited by or otherwise held invalid under such law shall be ineffective only to the extent of such prohibition or invalidity and shall not invalidate or otherwise render ineffective any or all of the remaining provisions of this Agreement. Both Manufacturer and Distributor shall comply with the export control laws and regulations of the United States, and neither Manufacturer nor Distributor shall export or reexport

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any Product in any manner contrary to the applicable export control laws or laws and regulations of the United States or any country. Both parties hereby confirm their intention to exclude application of the U.N. Convention on the International Sale of Goods if such Convention would otherwise be applicable to any transaction contemplated by this Agreement.

7.11 Controversy. Subject to the terms of this Section 7.11, all controversies, claims and disputes arising in connection with this Agreement shall be settled by mutual consultation between the parties in good faith as promptly as possible, but failing an amicable settlement shall be settled finally by arbitration conducted in Los Angeles, California in accordance with the Commercial Arbitration Rules of the American Arbitration Association.

7.11.1 Exclusivity. The parties hereto hereby agree that,



with the exception of claims arising out of a breach of Sections 5.1 through 5.3, the arbitration procedure provided for herein shall be the sole and exclusive method of resolving any and all of the aforesaid controversies, claims or disputes.

7.11.2 Decision by Arbitrators. Manufacturer and Distributor shall each select an arbitrator to resolve any dispute hereunder, and the two arbitrators so selected shall select a third arbitrator. The three arbitrators so selected shall make a final decision and award according to the terms and provisions of this Agreement and applicable law. Said decision shall set forth findings of fact and conclusions of law upon which the award is based. The arbitrators may select counsel to provide advice in preparation of such findings and conclusions, and on any point of law arising in the course of arbitration. The decision of any two (2) arbitrators shall constitute a final decision and award hereunder. Judgment upon the award may be entered in any court which has jurisdiction over such matter in accordance with the provisions of Section 7.11.4 hereof.

7.11.3 Costs and Expenses. The costs and expenses of the arbitration, including without limitation attorneys' fees, shall be borne by the parties in the manner determined by the arbitrators.

7.11.4 Judicial Action. Legal action for (i) entry of judgment upon any arbitration award or (ii) adjudication of any controversy, claim or dispute arising from a breach or alleged breach of this Section 7.11 or of Sections 5.1 through 5.3 may be heard or tried only in the courts of the State of California or in the Federal District Court for the Central District of California. Each of the parties hereby waives any defense of lack of in personam jurisdiction of said courts and agrees that service of process of such court may be made upon each of them by personal delivery or by mailing certified or registered mail, return receipt requested, to the other party at the address provided for in this Agreement. Both parties hereby submit to the jurisdiction of the court so selected, to the exclusion of any other courts which may have had jurisdiction apart from this Section 7.11, and agree that the prevailing party shall be entitled to recover from the non-prevailing party reasonable expenses, including without limitation reasonable attorneys' fees.

7.12 Entire Agreement. This Agreement sets forth the entire agreement between the parties hereto, fully supersedes any and all prior agreements or understandings between the parties hereto pertaining to the subject matter hereof and no change in, modification of or addition, amendment or supplement to this Agreement shall be valid unless set forth in writing and signed and dated by both of the parties hereto subsequent to the execution of this Agreement.

7.13 Counterparts. This Agreement may be executed in several counterparts and any and all such executed counterparts shall constitute one (1) Agreement binding on both Manufacturer and Distributor notwithstanding that both are not signatories to the original or to the same counterpart.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

"MANUFACTURER"

CHRISTIE ELECTRIC CORP., a California corporation

By  
Its: Sales & Marketing Manager

Address: 18120 South Broadway  
Gardena, CA 90248

Fax: (310) 618-8368  
Phone: (310) 715-1402

"DISTRIBUTOR"

ENERTEC

By  
Its: C.E.O.

Address: 20 Harav Kook Str., Kiryat  
Motzkin, Israel 26104

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EXHIBIT A

PRODUCTS/SERVICES

INCLUDED

-----  
 RF80-K  
 DataFX  
 R-400  
  
 CASP/2000  
 CASP/1200  
  
 CASP/1500  
 CASP/1100  
  
 POWER SUPPLIES  
 MAGAMPS\*  
 RECTODYNES (EXC. R-400)\*  
  
 PARTS  
  
 REPAIRS  
  
 RF80-H REFURBISHMENT  
 RF80-H "CLASSIC"

EXCLUDED

-----  
 Christie Battery System (CBS) Software and associated PCs, Bar Code Reader/Printer Units.

\* No stocking by Distributor. These units are only manufactured for a firm order.

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EXHIBIT B

TERRITORY  
 ENERTEC

1. Markets:

All

2. Exclusive Areas:

Israel

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EXHIBIT C

EXCLUSIVE TERRITORIES

<TABLE>  
 <CAPTION>

Assigned to:

Country	Company	Name	City/State	Country
<S>	<C>	<C>	<C>	<C>
Australia. . . .	Avtronics	Jack Cairns	Sydney	Australia
Bahrain. . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Brazil . . . . .	Prodair	Michael Olteanu	Rio De Janeiro	Brazil
Brunei . . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Canada, not B.C.	Air Dynamics	Bruce Trousdale	Quebec	Canada
Canada, B.C. . .	Advanced Pwr Prd	Byron Lenhart	Oregon	U.S.A.
China. . . . .	Golden Pacific	Wilson Chiu	California	U.S.A.

Columbia . . . . .	Co Com. Curacao	Carlos Cuadros	Bogota	Colombia
Denmark. . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Egypt. . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Finland. . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
India. . . . .	VXL Engineering	S. K. De	Faridabad	India
Indonesia. . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Israel . . . . .	Enertec	Harry Mund	Motzkin	Israel
Italy. . . . .	Gelbyson	Rafaello Triboli	Roma	Italy
Japan. . . . .	UIC Corp.	Mickey Amemiya	California	U.S.A.
Jordan . . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Kuwait . . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Malaysia . . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Mexico . . . . .	Gobal Comm.	Gott Van Rathonyi	Polanco	Mexico
New Zealand. . . . .	MacDonald Tech.	Neil Barr	Christchurch	New Zealand
New Guinea . . . . .	Avtronics	Jack Cairns	Sydney	Australia
Norway . . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Oman . . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Peru . . . . .	PCB	Pedro Colacci	Lima	Peru
Qatar. . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Saudi Arabia . . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Singapore. . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
South Korea. . . . .	Bo Woo	J. Y. Kim	Seoul	Korea
Sweden . . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Taiwan . . . . .	Truth Instruments	Rick Wu	Taiwan	Rep. of China
Thailand . . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
UAE. . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
United Kingdom . . . . .	Muirhead	Tony Cummings	Berkshire	England
Yemen. . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.

</TABLE>

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EXHIBIT C-1

DISTRIBUTORS/REPRESENTATIVES WITH EXCLUSIVE TERRITORIES

<TABLE>  
<CAPTION>

COMPANY/ADDRESS <S>	CONTACT <C>	PHONE/FAX NUMBERS <C>
AIR DYNAMICS. . . . . 19420 B. Clark Graham Avenue. . . . . Baie D'urfe Quebec, Canada H9X 3R8	Bruce Truesdale	Phone: 514-457-4287 Fax: 514-457-4143
ADVANCED POWER PRODUCTS . . . . . 10550 S. W. Allen Blvd., Suite 118. Beaverton, OR 97005	Byron Lenhart	Phone: 503-646-0994 Fax: 503-641-3669
AVTRONICS PTY LTD . . . . . 33 Higginbotham Rd. . . . . Gladesville, 2111 NSW Sydney, Australia	Jack Cairns	Phone: 61-29-807-1444 Fax: 61-29-809-7136
BO WOO COMMERCIAL CORP. . . . . Rm. #1101, O-Sung Bldg., 13-5 . . . . . YBO Buido-Dong, Yongdbungpo-Ku SEOUL, KOREA 150-010	J.Y. Kim	Phone: 82-2-783-9048 Fax: 82-2-785-3897
COMPANY COMMERCIAL CURACAO. . . . . Calle 93 NO. 20-45. . . . . Santafe de Bogota, D.C. COLOMBIA	Eng. Carlos Cuadros	Phone: 571-621-0751 Fax: 571-621-0752
ENERTEC ELECTRONICS SYSTEMS . . . . . 20 Harav Kook Stre., Kiryat . . . . . Motzkin, Israel 26104	Harry Mund	Phone: 972-48-706-698 Fax: 972-48-709-260
GELBYSON S.R.L. . . . . Via Alberico Albricci, 15 . . . . . 00194 Roma, Italy	Rafaello Triboli	Phone: 39-6-363-04761 Fax: 39-6-329-7337
GLOBAL COMMUNICATIONS INTERNATIONAL Sofocles 141, Polanco . . . . . Mexico, DF 11560	Gott Van Rathonyi	Phone: 525-580-0272 Fax: 525-395-5289
GOLDEN PACIFIC ELECTRONICS. . . . . 560 Melrose st. . . . . Placentia, CA 92670	Wilson Chiu	Phone: 714-993-6970 Fax: 714-993-6023

</TABLE>

## EXHIBIT C-1 (CONT.)

## DISTRIBUTORS/REPRESENTATIVES WITH EXCLUSIVE TERRITORIES

<TABLE>  
<CAPTION>

COMPANY/ADDRESS <S>	CONTACT <C>	PHONE/FAX NUMBERS <C>
GULF BUSINESS FOUNDATION . . . . . Defense Road, Al Safa. . . . . POB 408 Dubai, U.A.E.	Hesham Al Sayed	Phone: 971-431-4567 Fax: 971-431-0885
J. BACHMANN APS. . . . . International House. . . . . Bella Center, DK2300 Copenhagen S., Denmark	Jorgen Bachmann	Phone: 45-324-73332 Fax: 45-324-73335
MACDONALD TECHNOLOGIES . . . . . POB 14234. . . . . Christchurch Airport Christchurch 8030, New Zealand	Neil Barr	Phone: 64-3-359-4413 Fax: 64-3-359-4948
MUIRHEAD AVIONICS & ACCESSORIES. . . . . Olive House, Langley Business Center . Langley, Slough, Berkshire SL3 8DS, England	Tony Cummins	Phone: 44-1753-221-200 Fax: 44-1753-541-669
PCB REPRESENTATIVES. . . . . POB 27A-054, San Isidro. . . . . Lima 27, Peru	Pedro Colacci	Phone: 51-1-442-8348 Fax: 51-1-440-8420
PRODAIR REPRESENTACOES LTDA. . . . . Avenida Bartolomeu Mitre, 204-203. . . . . 22431-000, Rio de Janeiro-RJ, Brazil	Michael Olteanu	Phone: 55-21-201-6445 Fax: 55-21-511-1532
TRUTH INSTRUMENTS CO. LTD. . . . . 6 Fl, #133, Chung-Hsiao, E. Road Sec 5 Taipei, Taiwan, ROC	Rick Wu	Phone: 886-2-769-2276 Fax: 886-2-878-790-02
UPSILON. . . . . 383 Van Ness Avenue, Suite 1601. . . . . Torrance, CA 90501	Mickey Amemiya	Phone: 310-320-9455 Fax: 310-320-9580
VXL ENGINEERING. . . . . 20/3 Mathwuree Rd. . . . . Faridabad 121006, India	S. K. De	Phone: 91-129-285-617 Fax: 91-129-281-322

</TABLE>

## EXHIBIT C-2

## EXCLUSIVE TERRITORIES

<TABLE>  
<CAPTION>

Assigned to:

Country	Company	Name	City/State	Country
<S>	<C>	<C>	<C>	<C>
Canada, not B.C.	Air Dynamics	Bruce Trousdale	Quebec	Canada
Canada, B.C. . .	Adv. Power Prds.	Byron Lenhart	Oregon	U.S.A.
Australia. . . .	Avtronics	Jack Cairns	Sydney	Australia
New Guinea . . .	Avtronics	Jack Cairns	Sydney	Australia
South Korea. . .	Bo Woo	J. Y. Kim	Seoul	Korea
Columbia . . . .	Co Com. Curacao	Carlos Cuadros	Bogota	Colombia
Israel . . . . .	Enertec	Harry Mund	Motzkin	Israel
Italy. . . . .	Gelbyson	Rafaello Triboli	Roma	Italy
Mexico . . . . .	Gobal Comm.	Gott Van Rathonyi	Polanco	Mexico
China. . . . .	Golden Pacific	Wilson Chiu	California	U.S.A.
Bahrain. . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Egypt. . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Jordan . . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Kuwait . . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Oman . . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Qatar. . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Saudi Arabia . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
UAE. . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.
Yemen. . . . .	Gulf Business	Hesham Al Sayed	Dubai	U.E.A.

United Kingdom .	Muirhead	Tony Cummings	Berkshire	England
Brunei . . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Denmark. . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Finland. . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Indonesia. . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Malaysia . . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Norway . . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Singapore. . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Sweden . . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
Thailand . . . . .	J. Bachmann	Jorgen Bachmann	Copenhagen	Denmark
New Zealand. . . . .	MacDonald Tech.	Neil Barr	Christchurch	New Zealand
Peru . . . . .	PCB	Pedro Colacci	Lima	Peru
Brazil . . . . .	Prodair	Michael Olteanu	Rio De Janeiro	Brazil
Taiwan . . . . .	Truth Instruments	Rick Wu	Taiwan	Rep. of China
Japan. . . . .	Upsilon Corp.	Mickey Amemiya	California	U.S.A.
India. . . . .	VXL Engineering	S. K. De	Faridabad	India

</TABLE>

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EXHIBIT D

MINIMUM PURCHASE AND STOCKING REQUIREMENTS

1. Purchases from Christie net of discounts = \$100,000 per calendar year.
2. Minimum Inventory net of discounts = \$10,000 throughout year.

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EXHIBIT E

PRODUCT PRICES

Product/Service -----	List Price -----
RF80-K	\$ 7,224
DataFX	\$ 1,485
R-400	\$ 6,500
CASP/2000	\$ 4,495
CASP/1500	\$ 3,495
CASP/1200	\$ 2,495
CASP/1100	\$ 1,995
POWER SUPPLIES	
MAGAMPS*	Quote Only
RECTODYNES (EXC. R-400)*	Quote Only
PARTS	Quote Only
REPAIRS	Quote after inspection
RF80-H REFURBISHMENT	\$ 3,000 with "Core" trade-in
RF80-H "CLASSIC"*	\$ 4,200

\* When available

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EXHIBIT F

DISCOUNTS

Product/Service -----	Discount -----
RF80-K	25%
DataFX	25%
R-400	10%
CASP/2000	25%
CASP/1500	25%
CASP/1200	25%
CASP/1100	10%
POWER SUPPLIES	
MAGAMPS	25%
RECTODYNES (EXC. R-400)	25%
PARTS	25%

REPAIRS	25%
RF80-H REFURBISHMENT	25%
RF80-H "CLASSIC"*	25%

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EXHIBIT G

REBATE TERMS AND CONDITIONS

Annual rebate paid for growth in purchases (net of discounts) from Christie

Base: Average of prior two years of net purchases (must exceed \$100,000)  
- ----

Growth Volume: Current year less base  
- -----

Rebate: 5% of growth volume  
- -----

Terms: Paid by March 1 for prior calendar year  
- -----

Distributor's account with Christie must be "current" for rebate to be paid.

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EMCO HIGH VOLTAGE CO.

POWER SUPPLY MANUFACTURER

SALES REPRESENTATIVE AGREEMENT

This agreement made this sixth day of July, 1988, by and between EMCO HIGH VOLTAGE CO., having it's principal office at 11126 Ridge Road, Sutter Creek, CA., 95685, and ENERTEC INTERNATIONAL, with it's principal office located at 53 Herzl St., Netanya 42390, Israel, shall continue in force until termination by either party, by giving not less than 30 days written notice to the other.

EMCO appoints Enertec as it's sales representative for it's high voltage power supply line in the country of Israel. Enertec will be paid 15% of the "net invoice" price on all products booked by Enertec, shipped into this area, unless a previous written agreement accepted by both parties is made to reduce the commission rate in specific competitive situations.

Commissions will be paid to Enertec by the 15th of the month following the month in which customer's payment is made.

All orders are subject to acceptance or rejection by EMCO.

Upon notification of termination of this agreement for any reason, Enertec shall be entitled to full commission, when due, on orders submitted to EMCO prior to, or after receipt of notice of termination, but prior to the effective date of termination.

This agreement contains the entire understanding of the parties, shall supersede any other oral or written agreements, and may not be modified in any other way without the written consent of both parties.

EMCO HIGH VOLTAGE CO.

ENERTEC INTERNATIONAL

BY: /s/ R. McCoy

BY: /s/ Harry Mund

TITLE: Mkt. Mgr.

TITLE: Mgr.

DATE: 7-6-88

DATE:

11126 RIDGE ROAD SUTTER CREEK, CALIFORNIA 95685  
TELEPHONE (209) 223-EMCO

[LETTERHEAD OF GVILLI & CO.]

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the use in this Registration of Securities by a Small-Business Issuer (Form SB-2/A) of our report dated April 29, 2002 relating to the audited financial statements of Lapis Technologies, Inc. And Subsidiary as of December 31, 2001 and for the two years ended December 31, 2001 which appears in such Form SB-2/A. We also consent to the reference to us under the headings "Experts" in such Form SB-2/A.

/s/ Gvilli & Co.  
Gvilli & Co.

Tel Aviv, Israel  
February 9, 2003