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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: September 30, 2012

COMMISSION FILE NUMBER 333-100979

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

Delaware	27-0016420
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
70 Kinderkamack Road, Emerson, New Jersey	07630
(Address of principal executive offices)	(Zip Code)

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

n/a
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of November 14, 2012, there were 6,483,000 issued and outstanding shares of the Registrant's Common Stock, $0.001 par value.

EXPLANATORY NOTE

In connection with the filing of this Quarterly Report on Form 10-Q (the "Report") for the quarterly period ended September 30, 2012, Lapis Technologies, Inc. (the "Company") is relying on Release No. 68224 issued by the United States Securities and Exchange Commission (the "SEC"), entitled "Order Under Section 17A and Section 36 of the Securities Exchange Act of 1934 Granting Exemptions from Specified Provisions of the Exchange Act and Certain Rules Thereunder," which provides that filings by registrants unable to meet filing deadlines due to Hurricane Sandy and its aftermath shall be considered timely so long as the filing is made on or before November 21, 2012, and the conditions contained therein are satisfied. Certain of the Company's legal counsel and members of the Company's independent registered public accounting firm are located in New York, New York, and accordingly the Company was unable to file this Report by November 14, 2012 due to disruptions caused by Hurricane Sandy.

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PART I - FINANCIAL INFORMATION

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(US$ In Thousands)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,400	$ 940
Marketable securities	3,039	-
Trade account receivables	8,876	7,947
Inventories	8,380	2,479
Derivative asset - call options	408	-
Other account receivable	1,517	705
Total current assets	30,620	12,071
Property, plant and equipment, net	2,199	482
Intangible assets, net	1,930	-
Long term deposit	42	22
Deferred income taxes	276	3
Total long term assets	4,447	507
Total assets	$ 35,067	$ 12,578

	September 30, 2012 (Unaudited)	December 31, 2011
LIABILITIES AND EQUITY		
Short term bank credit and current portion of long term bank loans	$ 2,180	$ 766
Current portion of long term notes and convertible debenture, net of discount	3,222	1,000
Trade account payables	3,262	1,312
Other account payables	3,607	1,033
Derivative liability- put option	169	-
Deferred tax liabilities	189	-
Total current liabilities	12,629	4,111
Long term loans from banks	1,611	2,505
Long term notes convertible debenture net of discount	2,796	1,282
Derivatives liabilities- warrants	2,299	799
Accrued severance pay, net	1,088	228
Deferred tax liabilities	171	-
Excess in losses of affiliated company	-	41
Total long term liabilities	7,965	4,855
Stockholders' Equity:		
Preferred stock; $.001 par value, 5,000,000 shares authorized, none issued and outstanding		
Common stock; $.001 par value, 100,000,000 shares authorized, 6,483,000 shares issued and outstanding	6	6
Additional paid in capital	-	-
Accumulated other comprehensive income (loss)	(132)	105
Retained earnings	7,589	3,501
Lapis stockholders equity	7,463	3,612
Noncontrolling interests	7,010	-
Total equity	14,473	3,612
Total liabilities and equity	$ 35,067	$ 12,578

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(US$ In Thousands, Except Earnings Per Share Data)
(Unaudited)

	Nine months ended September 30,		Three months ended September 30,	
	2012	**2011**	**2012**	**2011**
Revenues	$ 8,212	6,947	3,780	2,973
Cost of revenues	6, 017	4,191	3,102	1,850
Gross profit	2,195	2,756	678	1,123
Operating expenses:				
Research and development	286	184	177	63
Selling and marketing	329	304	154	86
General and administrative	1,209	931	428	365
Amortization of intangible assets	31	-	31	-
Total operating expenses	1,855	1,419	790	514
Income (loss) from operations	340	1,337	(112)	609
Interest expense, net	(1,240)	(398)	(840)	(233)
Other income	4	-	-	-
Gain on bargain purchase	4,623	-	4,623	-
Income before provision for income taxes	3,727	939	3,671	376
Provision (benefit) for income taxes	(34)	76	(46)	15
Equity in profit of affiliated company	41	-	58	-
Net income	3,802	863	3,775	361
Net loss attributable to non controlling interests	(285)	-	(285)	-
Net income attributable to Lapis	$ 4,087	$ 863	$ 4,060	$ 361
Earning per share attributable to Lapis				
Basic	$ 0.63	$ 0.13	$ 0.63	$ 0.06
Diluted	$ 0.63	$ 0.13	$ 0.61	$ 0.06
Weighted average common shares outstanding:				
Basic	6,483,000	6,483,000	6,483,000	6,483,000
Diluted	6,526,617	6,483,000	6,613,851	6,483,000

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(US$ In Thousands, Unaudited)

	Nine months ended September 30,		Three months ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income	$ 3,802	$ 863	$ 3,775	$ 361
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	(38)	(194)	255	(372)
Total comprehensive income (loss)	3,764	669	4,030	(11)
Total comprehensive income attributable to the non-controlling interests	(86)	-	(86)	-
Total comprehensive income (loss) attributable to Lapis	$ 3,850	$ 669	$ 4,116	$ (11)

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

	Nine months ended September 30,	
	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,802	$ 863
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	136	54
Decrease in accrued severance pay, net	(53)	(142)
Change in fair value of derivatives, net	626	(3)
Gain on bargain purchase	(4,623)	-
Equity in loss of affiliated company	(41)	-
Change in deferred taxes, net	(132)	(5)
Change in the value of long term bank loans	(894)	-
Change in the value of long term notes and convertible debenture, net	347	-
Changes in operating assets and liabilities, net of changes from acquisition of subsidiary:		
Decrease (increase) in trade account receivables	2,461	(1,850)
Decrease in inventories	398	45
Decrease (increase) in other account receivables	34	(116)
Decrease in trade account payables	(620)	(653)
Increase in other account payables	129	-
Net cash provided by operating activities	1,570	(1,807)
Net cash provided by operating activities - discontinued operations	-	363
Net cash provided by (used in) operating activities	1,570	(1,444)

	Nine months ended September 30,	
	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in long term deposit and restricted cash	$ (181)	$ -
Purchase of property and equipment	(422)	(176)
Purchase of marketable securities	(110)	-
Acquisition of newly-consolidated subsidiary, net of cash acquired (Appendix A)	1,580	-
Net cash provided by (used in) investing activities	867	(176)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short term bank credit	1,414	(67)
Issuance of note and warrants	3,000	-
Receipt (Payment) of loans from related parties	325	(1,127)
Acquisition of noncontrolling interests	-	(1,500)
Proceeds from long-term debt	-	5,929
Net cash provided by financing activities	4,739	3,235
NET CASH INCREASE FROM CONTINUED OPERATION	7,176	1,615
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	940	626
TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	284	(190)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 8,400	$ 2,051
Supplemental disclosure of cash flow information:		
Amount paid during the period for:		
Interest	$ 181	$ 172
Taxes	$ 70	$ 31

Appendix A

Acquisition of newly-consolidated subsidiary, net of cash acquired:

Working capital, other than cash	$	(8,308)
Derivative asset-call options		(404)
Property and equipment		(1,400)
Intangible assets		(1,961)
Gain on bargain purchase		4,623
Derivative liability-put option		163
Non-current liabilities		1,771
Non controlling interest		7,096
Net cash provided by acquisition	$	1,580

NOTE 1 - DESCRIPTION OF BUSINESS

A. Overview

Lapis Technologies, Inc. ("we", "Lapis" or the "Company"), a US based Delaware corporation formed in Delaware on January 31, 2002 under the name Enertec Electronics, Inc., via its two operational Israeli based subsidiaries, wholly-owned Enertec Systems 2001 Ltd ("Enertec Systems") and 50.1% owned Micronet Ltd ("Micronet"), develops, manufactures, integrates and globally markets rugged and military computers, tablets and computer based systems and instruments for the commercial, defense and aerospace markets. Our products, solutions and services are designed to perform in severe environments and battle field conditions.

Our commercial rugged, automotive-grade, mobile computing systems, manufactured and sold via Micronet, are designed to perform in challenging work environments for fleet and workforce management solutions and are sold and used globally. We operate in the growing Mobile Resource Management ("MRM") market in which our computing products are sold globally and are designed to facilitate workflow and Fleet automation and communication thus increasing workforce productivity and enhancing corporate efficiency. We also, via Enertec Systems, develop, manufacture and supply various military and airborne computer based systems, simulators, automatic test equipment and electronic instruments. Our military developed solutions and systems are integrated in critical systems such as command and control systems, missile fire control systems, support military aircraft systems and other systems and equipment. These products are used by the Israeli Air Force and Navy and by foreign defense entities.

B. Micronet Acquisition

On September 7, 2012 (the "Closing Date"), we acquired (the "Acquisition") through our wholly-owned subsidiary Enertec Electronics Ltd., an Israeli corporation ("Enertec"), 47.5% of the issued and outstanding shares of Micronet (which ownership percentage may be increased up to 66% upon execution of certain put and call options granted by the selling stockholders under the stock purchase agreement for the Acquisition, or the "Agreement"). As a result of the consummation of the Micronet acquisition, we have become the largest shareholder of Micronet and the legal controlling entity because we have the ability to nominate the majority of the members of the Micronet board of directors, which gives us control of Micronet's operations.

Micronet is a developer, manufacturer and seller of ruggedized and non-ruggedized mobile computers and tablets designed for integration into fleet management solutions and mobile workforce management systems, enabling businesses to reduce operating and capital costs and increase efficiency. Micronet solutions enable positioning, efficient scheduling and dispatch, facilitate mobile workforce productivity, enable corporate efficiency, and enhance customer service. Micronet's products are a family of ruggedized mobile computing tablets and systems, designed and manufactured to fit the special requirements of the MRM market, enabling customers to operate in challenging work environments such as extreme temperatures, repeated vibrations or dirty and wet or dusty conditions. Micronet's products, in conjunction with available mobile applications solutions, provide fleet operators with visibility into vehicle location, fuel usage, speed and mileage as well as other insights into their mobile workface, reducing operating and capital costs while increasing revenue. Micronet's products are used in a wide range of MRM industry sectors, including: haulage and distribution, public transport, construction, service industries and public safety services. Micronet's products are fully programmable and provide customers with the operational flexibility to customize such products for their ongoing needs via a comprehensive development tool kit package that enables them to develop independently and support their own industry-specific applications and solutions.

The Acquisition serves our strategy to grow our business both internally and via acquisitions. We believe that Micronet and its research and development, proprietary know how and manufacturing capabilities will assist us to enlarge our abilities to provide turnkey solutions of computer based complex systems and solutions for commercial defense and aerospace applications as well. We believe that by utilizing Micronet as our commercial arm we will be able to access new market segments and new customers and thereby increase our overall customer base.

Under the terms of the Agreement we acquired 8,256,000 ordinary shares of Micronet for 17.3 million NIS (approximately $4,300), divided pro rata among three Israeli individuals who collectively were the former controlling shareholders ("Sellers"). The Acquisition was financed in part with working capital and in part through a loan from UTA Capital LLC, a Delaware limited liability company ("UTA") (see reference to note 8). The Agreement also includes two call options granted to Lapis and a put option granted to Sellers. Pursuant to the first call option, we are entitled to purchase from the Sellers, during the period beginning on the closing of the transaction and for 11 months thereafter, up to additional 996,000 ordinary shares of Micronet (5.73% of Micronet's issued and outstanding shares) for a price of 2.1 NIS (approximately $0.525 per share currently) per share as adjusted based on the Israeli customers index. Under the second call option, we are entitled to purchase from the Sellers up to additional 1,200,000 ordinary shares of Micronet (6.78% of Micronet's issued and outstanding shares) for a price of 2.1 NIS per share as adjusted based on the Israeli customers index (currently reflecting $0.525 per share) plus 25% of Micronet's 2012 gross profit per share based on Micronet's issued and outstanding shares as of December 31, 2012, up to maximum of 18,850,000 shares, but in any event such price per share shall not exceed 3 NIS (approximately $0.75 per share currently). Pursuant to the put option granted to Sellers, Sellers can cause the sale of up to an additional 1,000,002 ordinary shares constituting 5.73% of Micronet's issued and outstanding shares for a price of 2.2 NIS per share (approximately $0.55 per share currently) as adjusted based on the Israeli customers index. The put option is in effect for the period that begins on the one-year anniversary of the Closing Date and ends on the 22-month anniversary of the Closing Date. Micronet's results of operations and balance sheet were included in our consolidated reports commencing on the Closing Date. Acquisition costs in the amount of $32 were accrued as of September 30, 2012.

The purchase consideration was allocated to the tangible assets and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date. The fair value assigned to identifiable intangible assets acquired has been determined by using valuation methods that discount expected future cash flows to present value using estimates and assumptions determined by management. These estimates are subject to revision, which may result in significant adjustments to the values presented below when the appraisals are finalized. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of intangible assets acquired and liabilities assumed, and resulting gain on bargain purchase. The Company determined that the fair value of the net assets acquired exceeded the purchase price by approximately $4,623, which was recorded as a bargain purchase gain, and is shown separately as non operating income. The gain is not taxable income for tax purposes. Management's determination that a gain should be recorded was based largely on the following:

- Micronet is a publicly-traded company on the Tel Aviv Stock Exchange ("TASE"). The purchase price takes into consideration the average price per Micronet share for the 12 month period prior to the Closing Date. The average price per Micronet share for the 12 month period prior to the Closing Date was approximately 2.2 NIS, whereas the purchase price was 2.1 NIS.

- In addition to the cash consideration paid in the transaction as aforementioned, additional consideration for the Sellers is attributable to their expectation that the new controlling shareholders of Micronet together with the management team, will be able to use their experience, abilities and expertise to increase Micronet's value and thereby increase the value of the remaining shares held by the Sellers. Accordingly, the transaction was structured so that the Sellers continue to be stockholders of Micronet. The Sellers hold approximately 30% of the company's outstanding share capital following the Acquisition.

- In addition, we believe that the transaction may create an opportunity to merge other related valuable businesses and activities owned by Lapis into Micronet, which would turn Micronet into a larger group with diverse businesses, while at the same time lowering Micronet's risk of operating a single line of business.

- The track record of Lapis management team and their proven experience in growing companies has been a major role in the pricing of the transaction.

- Approximately 50% of the gain is created following the technical measurement of non-controlling interest at fair value which is much lower than the non-controlling interests' proportionate share of identifiable net assets.

Purchased identifiable intangible assets are amortized on a straight-line basis over their respective useful lives. The table set forth below summarizes the estimates of the fair value of assets acquired and liabilities assumed and resulting gain on bargain purchase.

	U.S. $ in Thousands
Current assets	$ 19,492
Derivative asset- call options	404
Property, plant and equipment, net	1,400
Other non- current assets	268
Identifiable intangible assets:	
Customer relations	917
Backlog	712
Core technology	330
Total assets acquired	23,523
Current liabilities	4,689
Derivative liability- put option	163
Convertible notes	1,265
Long-term liabilities, including deferred taxes liability	1,383
Total liabilities assumed	7,500
Non controlling interest	6,461
Employees stock options	635
Gain on bargain purchase	4,623
Net assets acquired	$ 4,304

The consideration of the Acquisition was attributed to net assets acquired and liabilities assumed based on their fair value. Upon a purchase price allocation, an amount of $330 was allocated to core technology and to be amortized over a 5 year period, an amount of $917 was allocated to estimated fair value of the customer relationship intangible assets to be amortized over a 3 year period, and an amount of $712 was allocated to backlog which is being amortized over its estimated useful life - up to 0.5 years. In addition, the value of employee stock options was recorded at fair value upon acquisition and amounted to $635. As these employee stock options are fully vested, they were classified upon acquisition as part of the noncontrolling interest. The call and put options granted in the Acquisition were measured at fair value as part of the Acquisition and amounted to $404 and $163 respectively. They will be marked to market each reporting period. An amount of $1,171 was allocated to the fair value of inventory that will be realized within 4 months of the Acquisition. The non-controlling interests were calculated based on the market price of Micronet's shares at the Closing Date. The contribution of Micronet results to our consolidated revenue and net income was $1,400 and loss of $258, respectively, for the nine months and three months ended September 30, 2012.

The unaudited pro forma financial information in the table below summarizes the combined results of our operations and those of Micronet for the periods shown as though the Acquisition occurred as of the beginning of fiscal year 2011. The pro forma financial information for the periods presented includes the business combination accounting effects of the Acquisition, including amortization charges from acquired intangible assets. The pro forma financial information presented below is for informational purposes only, is subject to a number of estimates, assumptions and other uncertainties, and is not indicative of the results of operations that would have been achieved if the Acquisition had taken place at January 1, 2011. The unaudited pro forma financial information is as follows (in thousands, except per share amounts):

	Nine Months Ended September 30,	
	2012	2011
Total revenues	$ 27,917	$ 14,024
Net income (loss) *	$ 2,771	$ (1,812)
Basic earnings (losses) per share	$ 0.43	$ (0.37)
Diluted earnings (losses) per share	$ 0.43	$ (0.37)

* Excluding one time gain on bargain purchase amounting to $4,623.

C. Exercise of Call Option

On November 14, 2012, the Company, via Enertec, exercised its right pursuant to the call option granted under the Agreement and acquired an additional 2.6% of the issued and outstanding shares of Micronet for a consideration of $243, increasing our ownership to 50.1% of the issued and outstanding shares of Micronet.

NOTE 2 - BASIS OF PRESENTATION AND CONSOLIDATION

Basis of Presentation.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission ("SEC"). Accordingly, they do not contain all information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary (consisting only of normal recurring accruals) to present the financial position of the Company as of September 30, 2012 and the results of operations and cash flows for the periods presented. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the operating results for the full fiscal year or any future period. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The Company's accounting policies are described in the Notes to Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2011, and updated, as necessary, in this Quarterly Report on Form 10-Q (the "Report").

Use of Estimates.

The preparation of the financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications:

Certain comparative figures have been reclassified to conform to the current year presentation.

Principles of consolidation:

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

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

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

Income Taxes

Deferred taxes are determined utilizing the “asset and liability” method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, when it is more likely than not that deferred tax assets will not be realized in the foreseeable future. Deferred tax liabilities and assets are classified as current or non-current based on the expected reversal dates.

The Company adopted ASC Topic 740-10-05, Income Tax, which provides guidance for recognizing and measuring uncertain tax positions, it prescribes a threshold condition that a tax position must meet for any of the benefits of the uncertain tax position to be recognized in the financial statements. It also provides accounting guidance on de-recognition, classification and disclosure of these uncertain tax positions. The Company’s policy on classification of all interest and penalties related to unrecognized income tax positions, if any, is to present them as a component of income tax expense.

Recent Accounting Pronouncements

New Accounting Standards Adopted in 2012

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

New Accounting Standards Yet to be Adopted

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

NOTE 4 – FAIR VALUE MEASUREMENTS

The accounting guidance establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.

Level 2 – Observable inputs such as quoted prices for similar instruments and quoted prices in markets that are not active, and inputs that are directly observable or can be corroborated by observable market data. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities.

Level 3 – Significant inputs to pricing that have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as the complex and subjective models and forecasts used to determine the fair value of financial instruments.

Financial assets and liabilities measured at fair value as of September 30, 2012 and December 31, 2011, are summarized below:

	Fair value measurements using input type			
	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 8,400	$ -	$ -	$ 8,400
Marketable securities	3,039	-	-	3,039
Derivative asset- call option	-	408	-	408
Derivative liability- put option	-	(169)	-	(169)
Derivatives liabilities - warrants	-	(2,299)	-	(2,299)
	$ 11,439	$ (2,060)	$ -	$ 9,379

	Fair value measurements using input type			
	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 940	$ -	$ -	$ 940
Derivatives liabilities - warrants	-	(799)	-	(799)
	$ 940	$ (799)	$ -	$ 141

NOTE 5 – INVENTORIES

Inventories are stated at the lower of cost or market, computed using the first-in, first-out method. Inventories consist of the following:

	September 30, 2012	December 31, 2011
Raw materials	$ 4,355	$ 732
Work in process	3,958	1,747
Finished products	67	-
	$ 8,380	$ 2,479

NOTE 6 - CONCENTRATIONS

A significant portion of our annual revenues during the past two years were from few leading customers that are large-scale strategic Israeli defense groups (Raphael, Israeli Aerospace Industry). Following the Acquisition, PeopleNet Communications Corporation, which operates in the U.S. market, has been added as a major significant customer.

As of September 30, 2012, we had three customers that combined accounted for approximately 85.41% of our accounts receivable. As of December 31, 2011, we had two customers which accounted for 90% of our accounts receivable. For the three and nine months ended September 30, 2012, approximately 83.21% and 85.41% of our sales were to three customers, compared to 93% and 91% for the three and nine months ended September 30, 2011, respectively, made to two major customers.

NOTE 7 - SEGMENTS

Operating segments are based upon our internal organization structure, the manner in which our operations are managed and the availability of separate financial information. Following the Acquisition, we have two operating segments: a defense and aerospace segment operated by Enertec Systems and a mobile resource management segment operated by Micronet. Prior to the third quarter of fiscal 2012, we had only one segment operated by Enertec Systems.

The following table summarizes the financial performance of our operating segments

	Three Months Ended September 30, 2012		
	Defense and aerospace	Mobile resource management	Consolidated
		(In thousands)	
Net revenues from external customers	$ 2,380	$ 1,400	$ 3,780
Segment operating income (loss)	604	(545)(1)	59
Unallocated expenses			172
Consolidated loss from operations			$ (113)

(1) Includes $703 of amortization of inventory fair value and $31 of intangible assets amortization derived from the Acquisition.

NOTE 8 – UTA CAPITAL LLC TRANSACTION

On July 12, 2011, we entered into a Note and Warrant Purchase Agreement (as amended, the "Purchase Agreement") with UTA, (as amended by that certain letter agreement dated as of August 16, 2011, and as further amended by that certain Second Amendment to Note and Warrant Purchase Agreement dated as of August 31, 2011 and that certain Third Amendment to Note and Warrant Purchase Agreement dated as of November 24, 2011 with UTA (the "Original Agreement") pursuant to which UTA agreed to provide financing to Lapis on a secured basis.

As agreed between the parties pursuant to certain amendments to the Purchase Agreement executed by the parties, the initial closing (the "Initial Closing") of the transactions contemplated by the Purchase Agreement took place on September 1, 2011. In connection therewith, the Company issued to UTA a secured promissory note in the principal amount of $3,000 that matures on March 1, 2014 (the "First Note"). The First Note bears interest at a rate of 8% per annum and principal was due to be repaid in three equal principal payments of $1,000 on each of September 1, 2012, September 1, 2013 and March 1, 2014. Net proceeds from the sale of the First Note are to be used as working capital for the Company and its subsidiaries. In addition, the Company issued to UTA a warrant (the "First Warrant" or "First Warrants") to purchase up to 952,227 shares of the Company's common stock, par value $0.001 (the "Common Stock"), representing 12% of the Company's outstanding shares of Common Stock, on a fully diluted basis at an exercise price of $0.05 per share. The First Warrant first becomes exercisable on March 1, 2012 and will terminate, to the extent not exercised, on March 1, 2017. The Company has agreed to customary covenants.

At issuance date of the First Warrant we recorded the fair value of the 952,227 Warrants issued with the $3,000 Note as a derivative liability in the amount of $828 with a corresponding to debt discount as we determined that warrants are not indexed to the Company's own stock pursuant to FASB ASC Topic 815 "Derivatives and Hedging" (ASC 815-40-25). On November 8, 2012, the Company and UTA amended the terms of the Warrants. See Note 9 -- Subsequent Events. Debt discount is amortized over the term of the loan to the stated maturity date and is presented as a component of interest expense in the accompanying statements of operations. Reevaluation of the warrant derivative for the nine months ended September 2012 is $(624), and is included as a component of interest expense. The fair value of the warrant derivatives as of September 30, 2012 was $1,424.

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

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

Amended and Restated Note and Warrant Purchase Agreement

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

Second Closing

On September 7, 2012, Lapis issued to UTA pursuant to the Amended and Restated Note and Warrant Purchase Agreement (i) the Second Secured Promissory Note in the principal amount of $3,000, with an initial interest rate equal to 8% per annum, $1,500 of such amount payable on May 15, 2013, and the remaining balance due at the Maturity Date of April 1, 2014, and (ii) the Second Warrant entitling UTA to purchase from Lapis up to a total of 600,000 shares of the Company's common stock at an exercise price initially equal to $0.65 per share, such warrant exercisable beginning six months after September 7, 2012, until 66 months after September 7, 2012. At issuance date, we recorded the fair value of the 600,000 Warrants issued with the $3,000 Note as a derivative liability in the amount of $872 with a corresponding increase in debt discount as we determined that warrants (ratchet down of exercise price based upon lower exercise price in future offerings) are not indexed to the Company's own stock pursuant to FASB ASC Topic 815 "Derivatives and Hedging" (ASC 815-40-25). On November 8, 2012, the Company and UTA amended the terms of the Warrants. See Note 9 -- Subsequent Events. Debt discount is amortized over the term of the loan to the stated maturity date and is presented as a component of interest expense in the accompanying statements of operations. Reevaluation of the warrant derivative for the nine months ended September 30, 2012 is $1, and is included as a component of interest expense. The fair value of the warrant derivatives as of September 30, 2012 was $871.

NOTE 9 – SUBSEQUENT EVENTS

A. On November 8, 2012, the Company and UTA amended the terms of the Warrants to provide that, subject to certain terms and conditions, (i) the Company will not issue Additional Shares of Common Stock (or Common Stock Equivalents), as such terms are defined in the Warrants, at a price per share of less than $0.50 without UTA's prior written consent for so long as any Warrant remains unexercised, (ii) UTA waives its right to certain anti-dilution protections of each Warrant as a result of the Company's issuance of additional shares or common stock equivalents for consideration per share less than the applicable exercise price at the issuance date, and (iii) the Company waives certain upward exercise price adjustments with respect to one-third of the First Warrant and agrees that the exercise price with respect to the entire First Warrant shall remain the same exercise price at the issuance date, subject to certain adjustments, regardless of the Company's 2012 after-tax consolidated net income.

B. On November 14, 2012, the Company, via Enertec, exercised its right pursuant to the call option granted under the Agreement and acquired an additional 2.6% of the issued and outstanding shares of Micronet, increasing our ownership to 50.1% of the issued and outstanding shares of Micronet. Enertec continues to maintain its right to purchase additional shares of Micronet under the call option as set forth in the Agreement. See also Note 1(c) relating to the exercise of the call option.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Report.

Overview

Lapis, a US based Delaware corporation formed in Delaware on January 31, 2002 under the name Enertec Electronics, Inc., via its two operational Israeli based subsidiaries, wholly-owned Enertec Systems 2001 Ltd ("Enertec Systems") and 50.1% owned Micronet Ltd ("Micronet"), develops, manufactures, integrates and globally markets rugged and military computers, tablets and computer based systems and instruments for the commercial, defense and aerospace markets. Our products, solutions and services are designed to perform in severe environments and battle field conditions.

Our commercial rugged, automotive-grade, mobile computing systems are manufactured and sold via Micronet. These systems are designed to perform in challenging work environments for fleet and workforce management solutions and are sold and used globally. We operate in the growing Mobile Resource Management (MRM) market in which our computing products are sold globally and are designed to facilitate workflow and Fleet automation and communication thus increasing workforce productivity and enhancing corporate efficiency. We also, via Enertec Systems, develop, manufacture and supply various military and airborne computer based systems, simulators, automatic test equipment and electronic instruments. Our military developed solutions and computer-based systems are integrated in critical systems such as command and control systems and missile fire control systems. These systems are often implemented in military aircraft, naval and land force systems. Our products are used by the Israeli Air Force, Navy and land forces as well as by other foreign defense entities.

Our two operations are located in Israel, benefitting from the innovative high tech spirit of the industry. In Enertec we also combine this spirit with extensive military experience. Our MRM tablets and mobile computers are integrated into MRM systems globally. We combine our deep expertise in the industry with strong technical capabilities to provide a complete range of high quality products, systems and services on a global scale. Our military solutions and products serve leading Israeli worldwide defense integrators and are used for Israeli and other defense forces around the world. By integrating our abilities and focusing on business and project teams, we leverage our corporate knowledge and experience, intellectual property and infrastructure to develop innovative solutions for clients that we serve worldwide. We mainly focus on the Israeli, European and US markets. Following the Acquisition, the US market has become our primary market.

As a developer of computer based systems designed to operate in various challenging environments, our goal is to become the MRM industry and mission critical military systems vendor of choice.

Our strategy is driven and focused on continued internal growth through diligent efforts in our traditional growing markets with new technologies and innovative systems and products as well as the development of new potential segments and markets. Concurrent with our efforts to grow organically and in line with our strategy, we will continue to seek acquisitions that will complement and expand our offerings, support our goals and increase our competitiveness.

In order to help achieve our internal growth, we have expanded our production capacity and facilities. The Acquisition serves our strategy to grow our business and we believe that Micronet and its research and development, proprietary know how and manufacturing capabilities will assist us in expanding our capability to provide turnkey solutions of computer based complex systems and solutions for commercial defense and aerospace applications as well. We strongly believe that by utilizing Micronet as our commercial arm we will be able to access new market segments, new customers and thereby increase our overall customer base. Our current targeted markets--in which we concentrate the majority of our resources--include the Israeli domestic market, the United States market, the European market as well as the large growing Indian defense market. In order to be able to sell into the Indian defense market, we entered into an agreement establishing a new joint venture with Amtek Defense Technologies Limited of Amtek, a leading Indian industrial group, for the formation of a manufacturing and marketing platform in India of products based on our technologies and know-how. The formation of the joint venture is intended to provide us with the ability to deliver new competitive offset and production solutions to our existing customers as well as to enhance our ability to access new customers. We anticipate that the joint venture may create new business opportunities for our group in Indian and nearby markets and assist us in penetrating such markets.

In supporting our vision and market strategy, we have nominated a board of directors and an advisory board for our two subsidiaries. Among our directors and advisory board are leaders from the financial community, defense industry, and academia. In addition to strengthening our financial structure as a result of the Acquisition, we continue to explore alternatives to strengthen our financial position including through public or private capital raises. In addition, an integral part of our growth strategy includes mergers and acquisitions. As such, our management is exploring potential acquisitions of companies with synergistic businesses that may allow us to enlarge the variety of our solutions to the market and increase our competitiveness.

Liquidity and Capital Resources

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

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

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

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

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

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

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

Enertec Systems has covenanted under its bank loan that (i) its shareholders' equity according to its financial statements will not be below 10 million NIS, and (ii) its shareholders' equity will not be lower than 20% of the total liabilities on its balance sheet. Enertec Systems has met all of its bank covenants. As of September 30, 2012, the shareholders' equity of Enertec Systems was 21.45 million NIS which constitutes 50% of the total liabilities on its balance sheet.

Financing Needs

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

Based on our current business plan, we anticipate that our existing cash balances and cash generated from future sales will be sufficient to permit us to conduct our operations and to carry out our contemplated business plans for the next twelve months. However, management may undertake additional debt or equity financings to better enable Lapis to grow and meet its future operating and capital requirements. There is no assurance that we will be able to consummate such offerings on favorable terms or at all. Currently, the only external sources of liquidity are our banks, and we may seek additional financing from them or through securities offerings to expand our operations, using new capital to develop new products, enhance existing products or respond to competitive pressures.

Results of Operations

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

Revenues for the three and nine months ended September 30, 2012 were $3,780 and $8,212 as compared to $2,973 and $6,947 for the three and nine months ended September 30, 2011, respectively. This represents an increase of $807, or 27%, for the quarter ended September 30, 2012 and an increase of $1,265, or 18%, for the nine months ended September 30, 2012, when compared to the same periods of 2011. The increase in revenue is primarily due to consolidating Micronet's financial results following the Acquisition in September 2012. Micronet contributed $1,400 to our consolidated revenues for the three and nine months ended September 30, 2012 while Enertec Systems accounted for a decrease in revenues of $593 and $135 for the three and nine months ended September 30, 2012, respectively, due to obtaining less progress in long term projects based on percentage of completion.

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

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

Selling and marketing

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

General and administrative

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

Research and Development Costs

Research and development costs are part of operating expenses. Research and development costs for the three and nine months ended September 30, 2012 were $177 and $286 compared to $63 and $184 for the three and nine months ended September 30, 2011, respectively. The increase in R&D is primarily due to the operations of Micronet, which accounted for $126 of the increase in research and development costs for the three and nine months ended September 30, 2012 as compared with the three and nine months ended September 30, 2011. Since Micronet invests a larger portion of its income in R&D as compared to Enertec Systems, management believes that there will be an increase in the R&D costs and portion of revenue in the near future.

Operating Expenses

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

Interest expense, net

Interest expense, net for the three and nine months ended September 30, 2012 were $840 and $1,240 compared to $233 and $398, respectively, for the three and nine months ended September 30, 2011. The increase in interest expense is mainly due to the change in fair value of warrant derivative which accounted to $623 for the nine months ended September 30, 2012.

Gain on bargain purchase

The Company determined that the fair values of assets acquired pursuant to the Acquisition exceeded the purchase price by approximately $4,623, which was recorded as a bargain purchase gain, and is shown as a separate component of non operating income. The gain is not a taxable income event for tax purposes. Management's determination that a gain should be recorded was based largely on the following:

- Micronet is a publicly-traded company on the Tel Aviv Stock Exchange ("TASE"). The purchase price takes into consideration the average price per Micronet share for the 12 month period prior to the Closing Date. The average price per Micronet share for the 12 month period prior to the Closing Date was approximately 2.2 NIS, whereas the purchase price was 2.1 NIS.

- In addition to the cash consideration paid in the transaction as aforementioned, additional consideration for the Sellers is attributable to their expectation that the new controlling shareholders of Micronet together with the management team, will be able to use their experience, abilities and expertise to increase Micronet's value and thereby increase the value of the remaining shares held by the Sellers. Accordingly, the transaction was structured so that the Sellers continue to be stockholders of Micronet. The Sellers hold approximately 30% of the company's outstanding share capital following the Acquisition.

- In addition, we believe that the transaction may create an opportunity to merge other related valuable businesses and activities owned by Lapis into Micronet, which would turn Micronet into a larger group with diverse businesses, while at the same time lowering Micronet's risk of operating a single line of business.

- The track record of Lapis management team and their proven experience in growing companies has been a major role in the pricing of the transaction.

- Approximately 50% of the gain is created following the technical measurement of non-controlling interest at fair value which is much lower than the non-controlling interests' proportionate share of identifiable net assets.

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

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

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

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

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

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

Income taxes. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Accounting for uncertainty in income taxes requires that tax benefits recognized in the financial statements must be at least more likely than not of being sustained based on technical merits. The amount of benefits recorded for these positions is measured as the largest benefit more likely than not to be sustained. Significant judgment is required in making these determinations. As of September 30, 2012, there are no unrecognized tax benefits. Deferred taxes and liabilities are determined utilizing the "asset and liability" method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We provide a valuation allowance, when it is more likely than not that deferred tax assets will not be realized in the foreseeable future. In calculating our deferred taxes and liabilities we are taking into account various estimates, which are examined and if necessary adjusted on a quarterly basis, regarding our future utilization of future carry forward losses.

Recent Accounting Pronouncements

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not Applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Exchange Act the Company carried out an evaluation with the participation of the Company's management, including Mr. David Lucatz, the Company's Chief Executive Officer ("CEO") and Mrs. Tali Dinar, the Company's Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of the period ended September 30, 2012. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal controls

On September 7, 2012, the Company completed the Acquisition. The Company has extended its oversight and monitoring processes that support its internal control over financial reporting to include Micronet's operations. The Company is continuing to integrate the acquired operations of Micronet into its overall internal control over financial reporting process. There has been no other change in its internal control over financial reporting during the quarterly period ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II- OTHER INFORMATION

Item 1A. Risk Factors.

The information presented below sets forth what we reasonably believe represent material changes to the risk factors described in our annual report on Form 10-K for the fiscal year ended December 31, 2011, and should be read in conjunction with the risk factors therein and the information described in this Report.

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

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

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

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

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

- the productivity and availability of labor;
- the complexity of the work to be performed;
- the cost and availability of materials;
- the impact of delayed performance; and
- the timing of product deliveries.

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

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

We depend on major customers for a significant portion of our revenues and our future revenues and earnings could be negatively impacted by the loss or reduction of the demand for our products or services by such customers. A significant portion of our annual revenues in the past two years was generated from a few leading customers that are either large scale strategic Israeli defense groups (Raphael, Israeli Aerospace Industry) performing large scale strategic projects for the Israeli government, among other tasks, or large scale integrators and vendors of computer software and technological solutions in the Mobile Resource Management, or MRM, market in which Micronet operates.

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

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

Micronet may cease to be eligible for, or receive reduced, tax benefits under Israeli law, which could negatively impact our profits in the future. Micronet currently receives certain tax benefits under the Israeli Law for Encouragement of Capital Investments of 1959, as a result of the designation of its production facility as an ''Approved Enterprise.'' To maintain its eligibility for these tax benefits, Micronet must continue to meet several conditions including, among others, making required investments in fixed assets. In addition, in recent years the Israeli government has reduced the benefits available under this program and has indicated that it may further reduce or eliminate benefits in the future. There is no assurance that Micronet will continue to qualify for these tax benefits or that such tax benefits will continue to be available at their current level, or at all. The termination or reduction of these tax benefits would increase the amount of tax payable by Micronet and, accordingly, reduce its net profit after tax and negatively impact our profits.

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

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

Item 6. Exhibits.

Exhibit Number	Description
10.1	Amended and Restated Note and Warrant Purchase Agreement, dated as of August 31, 2012, by and between Lapis Technologies, Inc. and UTA Capital LLC.
10.2	First Amendment to First Secured Promissory Note, dated as of August 31, 2012, by and between Lapis Technologies, Inc. and UTA Capital LLC.
10.3	Second Secured Promissory Note, dated as of September 7, 2012, issued to UTA Capital LLC.
10.4	Second Common Stock Purchase Warrant, dated as of September 7, 2012, issued to UTA Capital LLC.
31.1	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Lapis Technologies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheet, (ii) Consolidated Statements of Income and Other Comprehensive Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LAPIS TECHNOLOGIES, INC.

Date: November 19, 2012

By: /s/ David Lucatz
David Lucatz
President and Chief Executive Officer (Principal Executive Officer)

Date: November19, 2012

By: /s/ Tali Dinar
Tali Dinar
Secretary and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

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Exhibit 10.1

Execution Version

AMENDED AND RESTATED

NOTE AND WARRANT PURCHASE AGREEMENT

by and between

LAPIS TECHNOLOGIES INC.

("Company")

and

UTA CAPITAL LLC

("Purchaser")

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AMENDED AND RESTATED NOTE AND WARRANT PURCHASE AGREEMENT

This AMENDED AND RESTATED NOTE AND WARRANT PURCHASE AGREEMENT (this "Agreement") is entered into as of August 31, 2012, by and between Lapis Technologies Inc., a Delaware corporation (the "Company"), and UTA Capital LLC, a Delaware limited liability company ("Purchaser").

W I T N E S S E T H:

WHEREAS, the Company and the Purchaser entered into that certain Note and Warrant Purchase Agreement dated as of July 12, 2011, as amended by that certain letter agreement dated as of August 16, 2011, and as further amended by that certain Second Amendment to Note and Warrant Purchase Agreement dated as of August 31, 2011 and that certain Third Amendment to Note and Warrant Purchase Agreement dated as of November 24, 2011 (as so amended, the "Original Agreement");

WHEREAS, pursuant to the Original Agreement, at the Initial Closing (as defined below), the Purchaser purchased from the Company a secured promissory note, substantially in the form attached hereto as Exhibit A-1 (the "First Note"), in the aggregate principal amount of $3,000,000 (the "First Note Principal Amount") and a warrant to purchase 952,227 shares of the Company's common stock, $.001 par value per share (the "Common Stock");

WHEREAS, the Original Agreement contemplates an Intermediate Closing (as defined in the Original Agreement) at which the Purchaser would purchase from the Company an additional secured promissory note in the aggregate principal amount of $1,500,000, the proceeds of which would be used to refinance certain of the Company's obligations;

WHEREAS, the time period during which the Intermediate Closing could occur pursuant to the terms of the Original Agreement has expired without the parties having consummated the Intermediate Closing;

WHEREAS, the Original Agreement contemplates a Second Closing (as defined below) at which the Purchaser will purchase from the Company a secured promissory note, substantially in the form attached hereto as Exhibit A-2 (the "Second Note") in the principal amount of $3,000,000 (the "Second Note Principal Amount") (the First Note together with the Second Note, the "Notes"), the proceeds of which will be used to finance the Company's direct or indirect acquisition of a target company;

WHEREAS, the Company has identified a company (the "Target Company") as a potential acquisition target;

WHEREAS, the Company desires to consummate the Second Closing in order to finance a portion of the Company's direct or indirect acquisition of 47.5% of the outstanding ordinary shares of the Target Company and options to purchase an additional approximate up to 12% of the outstanding ordinary shares of the Target Company (such acquisition, the "Target Company Acquisition");

WHEREAS, although the time period during which the Second Closing could occur pursuant to the terms of the Original Agreement has expired, the Purchaser has agreed to consummate the Second Closing to allow the Company to consummate the Target Company Acquisition, upon the terms and subject to the conditions set forth herein; and

WHEREAS, the terms set forth herein shall amend and restate in its entirety the Original Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby mutually acknowledged, the parties agree to amend and restate the Original Agreement in its entirety and further agree as follows:

1. **Sale and Purchase of the Notes and Warrant**

1.1 Sale and Issuance of Notes. At the Initial Closing (as defined below), the Purchaser purchased from the Company, and the Company sold and issued to the Purchaser, the First Note in the First Note Principal Amount (the "Initial Closing Date Purchase Price"). Subject to the terms and conditions of this Agreement, the Purchaser agrees to purchase at the Second Closing (as defined below) and the Company agrees to sell and issue to the Purchaser, the Second Note in the Second Note Principal Amount.

1.2 Issuance of Warrant.

(a) At the Initial Closing, the Company issued to the Purchaser a warrant, substantially in the form attached hereto as Exhibit B-1 (the "First Warrant"), to initially purchase up to 952,227 shares of Common Stock, which equaled, as of the date of the Initial Closing, 12% of the sum of (x) the number of then currently issued and outstanding shares of Common Stock, plus, without duplication, (y) the number of additional shares of Common Stock underlying Common Stock Equivalents (as defined below) outstanding as of immediately prior to the Initial Closing, and (z) the number of additional shares of Common Stock issuable upon exercise in full of the First Warrant.

(b) Subject to the terms and conditions of this Agreement, the Company shall issue to Purchaser, at the Second Closing, a Warrant, substantially in the form attached hereto as Exhibit B-2 (the "Second Warrant" and, together with the First Warrant, the "Warrants"), to purchase up to 600,000 shares of Common Stock.

2. **Initial Closing and Second Closing**.

2.1 Initial Closing. The closing of the sale and purchase of the First Note and the First Warrant (the "Initial Closing") took place at the offices of Seyfarth Shaw LLP, 620 Eighth Avenue, New York, NY 10018, at 10:00 a.m., local time, on September 1, 2011 (the "Initial Closing Date"). On the Initial Closing Date, Purchaser paid the Initial Closing Date Purchase Price to the Company via federal funds wire transfer(s) of immediately available funds, in accordance with written instructions provided to Purchaser prior to the date thereof.

2.2 Second Closing. Subject to the terms of this Agreement, and subject to (x) the closing of the Target Company Acquisition (as defined below) on terms reasonably acceptable to the Purchaser and (y) the satisfaction or, if permissible, waiver of the conditions set forth in Section 7 and Section 8, the closing for the sale and purchase of the Second Note and the Second Warrant shall take place at the offices of Seyfarth Shaw LLP, 620 Eighth Avenue, New York, NY 10018, at 10:00 a.m., local time, on a date to be specified by the Company and the Purchaser, which shall be not later than the second business day after the satisfaction or, if permissible, waiver of the conditions set forth in Section 7 and Section 8 (other than those that by their terms are to be satisfied or waived at the closing), unless another time, date or place is agreed to in writing by the Company and the Purchaser (the "Second Closing"). The date upon which the Second Closing shall occur is herein called the "Second Closing Date". The First Closing and the Second Closing are referred to herein individually as an applicable "Closing" and the date upon which an applicable Closing shall occur is referred to herein as an applicable "Closing Date". On the Second Closing Date, Purchaser shall pay the Second Note Principal Amount to the Company via federal funds wire transfer(s) of immediately available funds, in accordance with written instructions provided to Purchaser prior to the date hereof.

3. **Company Pledge and Security Agreements; Subsidiary Guarantees and Collateral Agreements**

3.1 Company Pledge Agreement with Respect to Enertec Electronics Shares, and Company Assets. At the Initial Closing, the Company entered into a Pledge and Security Agreement, substantially in the form of Exhibit C attached hereto (the "Company Enertec Electronics Pledge and Security Agreement"),

(a) pledging, as security in favor of Purchaser for the obligations of the Company under the Notes and this Agreement, all of the shares of capital stock of Enertec Electronics Ltd., an Israeli company and a wholly-owned subsidiary of the Company ("Enertec Electronics"), presently owned or hereinafter acquired, either directly or indirectly, by the Company, representing 100% of the issued and outstanding shares of capital stock of Enertec Electronics (the "Enertec Electronics Pledge"); and

(b) granting, as additional security in favor of the Purchaser for the obligations of the Company under the Transaction Documents, a security interest in and lien on any and all accounts receivable, contracts, chattel paper, equipment and all other assets of the Company (the "Company Collateral").

This Agreement, the Notes, the Warrants, the Company Enertec Electronics Pledge and Security Agreement, the Intermediate Subsidiary Pledge and Security Agreement, the Operating Subsidiary Security Agreement, the Target Company Pledge Agreement and any other agreement executed by the Company or any Subsidiary in connection with the transactions contemplated hereby are collectively referred to as the "Transaction Documents."

3.2 Company Pledge Agreement with Respect to Target Company Shares and Individual Pledge Agreement with Respect to Company Shares. At the Second Closing, concurrently with the Target Company Acquisition:

(a) Enertec Electronics shall enter into a Pledge Agreement, substantially in the form of Exhibit D-1 attached hereto (the "Target Company Pledge Agreement, and together with the Company Enertec Electronics Pledge and Security Agreement, hereinafter together referred to as the "Company Pledge and Security Agreement"), pledging, as security in favor of Purchaser for the obligations of the Company under the Transaction Documents, all of the equity interests in the Target Company owned or thereafter acquired, either directly or indirectly, by Enertec Electronics (the "Target Company Pledge"); and

(b) D.L. Capital Ltd. shall enter into a Pledge Agreement, substantially in the form of Exhibit D-2 hereto (the "Individual Pledge Agreement"), pledging, as security in favor of Purchaser for the obligations of the Company under the Transaction Documents, one million shares of the Company owned by D.L. Capital Ltd. (the "D.l. Capital Pledge").

3.3 Intermediate Pledge and Security Agreement. At the Initial Closing, the Company caused each of Enertec Electronics and Enertec Management to enter into a Subsidiary Pledge and Security Agreement, substantially in the form of Exhibit E-1 attached hereto (the "Intermediate Subsidiary Pledge and Security Agreement"),

(a) guaranteeing all of the Company's obligations under the Transaction Documents; and

(b) agreeing not to transfer, pledge or encumber any shares of Enertec Management and Enertec Systems (as defined below) presently owned or hereinafter acquired, either directly or indirectly, by Enertec Electronics and/or Enertec Management without the prior written consent of Purchaser unless such transfer, pledge or encumbrance is contemplated by the Transaction Documents; and

(c) pursuant to which Enertec Electronics will grant to Purchaser, as security in favor of Purchaser for the obligations of the Company under the Transaction Documents, a security interest in and lien on all of the shares of Enertec Management; and .

(d) pursuant to which Enertec Management will grant to Purchaser, as security in favor of Purchaser for the obligations of the Company under the Transaction Documents, a security interest in and lien on all of the shares of capital stock of Enertec Systems 2001 Ltd. ("Enertec Systems"), an Israeli company wholly-owned by Enertec Management, such lien to be junior only to the liens of First International Bank of Israel ("FIBI") (as defined below) on the shares of Enertec Systems as described in Section 3.6 below.

3.4 Operating Subsidiary Security Agreement. At the Initial Closing, the Company caused Enertec Systems to enter into a Security Agreement substantially in the form of Exhibit E-2 attached hereto (the "Operating Subsidiary Security Agreement"),

(a) guaranteeing all of the Company's obligations under the Transaction Documents; and

(b) granting to Purchaser, as security in favor of Purchaser for the obligations of the Company under the Transaction Documents, a security interest in and lien on all of Enertec Systems' then owned or thereafter acquired accounts receivable (other than as set forth in the Operating Subsidiary Pledge and Security Agreement), contracts, chattel paper, equipment and all other assets (the "Enertec Systems Collateral" and, together with the Company Collateral, the "Collateral"), such lien to be junior only to the liens of FIBI as described in Section 3.5 below.

3.5 Priorities. Notwithstanding anything herein to the contrary, the parties hereby acknowledge and agree that:

(a) the Company's debt under the Notes shall be senior to all other debt of the Company and the Subsidiaries (as defined below), provided however, that such debt shall be junior to existing bank financing being provided as of the date of the Original Agreement by FIBI to Enertec Systems in the amount of $2,700,000; and

(b) all the foregoing security interests in and the liens on all the Company's and Subsidiaries' assets and shares, and the equity interests in or assets of Target Company (following the Second Closing), which secure the obligations of the Company under Transaction Documents, shall be senior to all other liens, provided that the lien on the shares of Enertec Systems and on all of Enertec Systems' then owned or thereafter acquired accounts receivable, contracts, chattel paper, equipment and all other assets securing the Company's obligations under the Notes shall be junior only to the lien of FIBI on the shares of Enertec Systems securing the financing described under Section 3.5(a) above.

4. **Representations and Warranties of the Company.** The Company hereby represents and warrants to Purchaser as follows (which representations and warranties shall be deemed to apply, where appropriate, to the following direct or indirect subsidiaries of the Company: Enertec Electronics, Enertec Management, Enertec Systems and the Target Company (each a "Subsidiary" and collectively, the "Subsidiaries")), as of the applicable Closing Date:

4.1 Subsidiaries. Except as disclosed in Schedule 4.1, the Company has no subsidiaries other than Enertec Electronics, Enertec Management, Enertec Systems and the Target Company. Except as disclosed in Schedule 4.1 or as specifically disclosed in the SEC Reports (as hereinafter defined) hereto, the Company owns, directly or indirectly, all of the capital stock or comparable equity interests of each Subsidiary free and clear of any lien, charge, claim, security interest, encumbrance, right of first refusal or other restriction (each, a "Lien") (other than Liens in favor of Purchaser) and all the issued and outstanding shares of capital stock or comparable equity interest of each Subsidiary are validly issued, fully paid and non-assessable and free of statutory preemptive and similar rights.

4.2 Organization and Qualification. Each of the Company and the Subsidiaries is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its respective incorporation or organization (as applicable), with the requisite legal authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. The Company and the Subsidiaries are each duly qualified to do business and in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not, individually or in the aggregate, have or reasonably be expected to result in a (a) a material adverse effect on the results of operations, assets, prospects, business condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, (b) a material and adverse impairment of the Company's and the Subsidiaries' ability to perform their respective obligations under any of the Transaction Documents, or (c) a material and adverse effect on the legality, validity or enforceability of any of the Transaction Documents (a "Material Adverse Effect"); provided, however, that no change, effect, event or occurrence to the extent arising or resulting from any of the following, either alone or in combination, shall constitute or be taken into account in determining whether there has been or will be, a Material Adverse Effect: (i) general business or economic conditions not specific or peculiar to the Company or any Subsidiary, (ii) acts of war or terrorism or natural disasters not specific or peculiar to the Company, a Subsidiary or a jurisdiction in which any of them operates, (iii) catastrophic economic or significant regulatory or political conditions or changes, (iv) changes in any applicable accounting regulations or principles or the interpretations thereof, or (v) changes in laws, (vi) changes in the price or trading volume of the Company's stock, (vii) facts, circumstances, events or changes generally affecting the industry in which the Company and its Subsidiaries operate so long as such facts, circumstances, events or changes do not adversely affect the Company and its Subsidiaries in a materially disproportionate manner relative to other participants in the industry in which the Company and its Subsidiaries operate.

4.3 Authorization; Enforcement. The Company and each Subsidiary has the requisite corporate or other authority to enter into and to consummate the transactions contemplated by the Transaction Documents to which it is a party and otherwise to carry out its respective obligations hereunder and thereunder. The execution and delivery of the Transaction Documents by the Company or any Subsidiary and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate or other action on the part of the Company and each Subsidiary and no further consent or action is required by the Company, the Subsidiaries or their respective Boards of Directors (or similar governing body) or shareholders. The Transaction Documents to which they are a party have been duly executed by the Company and the Subsidiaries, as applicable, and when delivered in accordance with the terms hereof, will constitute, the valid and binding obligation of the Company and the Subsidiaries, as applicable, enforceable against the Company and the Subsidiaries, as applicable, in accordance with their respective terms, except as the same may be limited by (a) applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditors rights generally, and (b) the effect of rules of law governing the availability of specific performance and other equitable remedies.

4.4 No Conflicts. Except as disclosed in Schedule 4.4, the execution, delivery and performance of the Transaction Documents by the Company and the Subsidiaries, as applicable, and the consummation by the Company and the Subsidiaries, as applicable, of the transactions contemplated hereby and thereby do not, and will not, (a) conflict with or violate any provision of the Company's or any Subsidiary's respective certificate or articles of incorporation, bylaws or other organizational or charter documents, (b) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound, (c) except for Liens granted pursuant to the Transaction Documents, result in any Lien on assets or on property of the Company, or (d) result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including, assuming the accuracy of the representations and warranties of Purchaser set forth in Article 5 hereof, federal securities laws and regulations and the rules and regulations of any self-regulatory organization to which the Company or its securities are subject, including any market (such as the OTC Markets Group Inc.) on which the shares of Common Stock are listed or quoted for trading on the date in question, as applicable (the "Trading Markets")), or by which any property or asset of the Company or a Subsidiary is bound.

4.5 The Securities.

(a) The Notes, the Warrants and the shares of Common Stock issuable upon exercise thereof (collectively, the "Securities") are duly authorized and the shares of Common Stock, when issued and paid for upon the exercise of and in accordance with the Warrants, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens and will not be subject to preemptive or similar rights of stockholders (other than those imposed by Purchaser). The Company has reserved from its duly authorized shares of Common Stock the maximum number of securities issuable upon exercise of the Warrants (the "Warrant Shares").

(b) The shares of Common Stock initially issuable upon exercise of the First Warrant will, immediately following the Initial Closing under this Agreement, represent 12% of the sum of (x) the number of then currently issued and outstanding shares of Common Stock, plus, without duplication, (y) the number of additional shares of Common Stock underlying Common Stock Equivalents (as defined below) outstanding as of the date of the Initial Closing, and (z) the number of additional shares of Common Stock issuable upon exercise in full of the First Warrant). Assuming the accuracy of the representations and warranties of Purchaser set forth in Article 5 hereof, the offer, issuance and sale of the Notes, the Warrants and the Warrant Shares by the Company pursuant to the Transaction Documents are exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). "Common Stock Equivalents" shall mean any Convertible Security (defined as evidences of indebtedness, ordinary or convertible preferred shares or other securities which are or may be at any time convertible into or exchangeable for shares of Common Stock) or warrant, option or other right to subscribe for or purchase any shares of Common Stock or any Convertible Security.

4.6 Capitalization.

(a) As of the date of this Agreement, the aggregate number of shares and type of all authorized, issued and outstanding classes of shares, options and other securities of the Company and the Subsidiaries (whether or not presently convertible into or exercisable or exchangeable for shares of the Company and the Subsidiaries) is set forth in Schedule 4.6 hereto. All outstanding shares of Common Stock are duly authorized, validly issued, fully paid and nonassessable and have been issued in compliance in all material respects with all applicable securities laws. The Company and the Subsidiaries have outstanding only those options, warrants, script rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or entered into any agreement giving any Person (as defined in Section 4.29 hereof) any right to subscribe for or acquire, any shares of capital stock of the Company or the Subsidiaries, or securities or rights convertible or exchangeable into shares of capital stock of the Company or the Subsidiaries as set forth on Schedule 4.6.

(b) Except as set forth on Schedule 4.6 hereto, and except for customary adjustments as a result of share dividends, share splits, combinations of shares, reorganizations, recapitalizations, reclassifications or other similar events, there are no anti-dilution or price adjustment provisions contained in any security issued or agreement entered into by the Company or the Subsidiaries (or in any agreement providing rights to security holders) and the issuance and sale of the Securities will not obligate the Company or the Subsidiaries to issue shares of Common Stock or other securities to any Person (other than Purchaser) and will not result in a right of any holder of securities to adjust the exercise, conversion, exchange or reset price under such securities. To the Knowledge (as hereinafter defined) of the Company, except as disclosed in Schedule 4.6 hereto and except for the Company's ownership of the Subsidiaries, no Person or group of related Persons beneficially owns (as determined pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), or has the right to acquire, by agreement with or by obligation binding upon the Company or the Subsidiaries, a beneficial ownership interest in the Company or the Subsidiaries in excess of 5% of the outstanding capital stock of such entity. "Knowledge" means the actual knowledge (i.e., the conscious awareness of facts and other information) of the chief executive officer and/or the chief financial officer of the Company, after undertaking a customary and reasonable investigation under the circumstances.

4.7 SEC Reports; Financial Statements; No Material Adverse Effect; Solvency.

(a) Except as set forth on Schedule 4.7 or as specifically disclosed in the SEC Reports, the Company has filed all reports required to be filed by it under the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, since December 31, 2009 on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. Such reports required to be filed by the Company under the Exchange Act after December 31, 2009, including pursuant to Section 13(a) or 15(d) thereof, and including all Current Reports on Form 8-K, together with any materials filed or furnished by the Company under the Exchange Act, whether or not any such reports were required, are collectively referred to herein as the "SEC Reports" and, together with this Agreement and the schedules to this Agreement, the "Disclosure Materials". As of their respective dates, the SEC Reports filed by the Company complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") promulgated thereunder, and none of the SEC Reports, when filed by the Company, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the SEC with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements, the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP or may be condensed or summary statements, and fairly present in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, year-end audit adjustments. All material agreements to which the Company or any Subsidiary is a party or to which the property or assets of the Company or any Subsidiary are subject are included as part of or identified in the SEC Reports, to the extent such agreements are required to be included or identified pursuant to the rules and regulations of the SEC.

(b) Since the date of the latest audited financial statements included within the SEC Reports, except as disclosed in Schedule 4.7 hereto, (i) there has been no event, occurrence or development that, individually or in the aggregate, has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company and Subsidiaries have not incurred any material liabilities other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice, (B) liabilities not required to be reflected in the Company's and/or Subsidiary's financial statements pursuant to GAAP or not required to be disclosed in filings made with the SEC and (C) other liabilities incurred by the Subsidiaries for the exclusive purpose of funding the day-to-day operations of Subsidiaries, (iii) the Company has not altered its method of accounting or changed its auditors, (iv) the Company and the Subsidiaries have not declared or made any dividend or distribution of cash or other property to their shareholders, in their capacities as such, or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock, and (v) the Company and/or the Subsidiaries have not issued any equity securities to any officer, director or affiliate, except pursuant to existing Company stock-based plans. The Company and the Subsidiaries have not taken any steps to seek protection pursuant to any bankruptcy law nor does the Company have any Knowledge or reason to believe that its creditors intend to initiate involuntary bankruptcy proceedings or any Knowledge of any fact which could reasonably lead a creditor to do so. The Company and the Subsidiaries will not be Insolvent (as defined below) after giving effect to the transactions contemplated hereby to occur at the applicable Closing. For purposes of this Section 4.7, "Insolvent" means that (i) the present fair saleable value of the Company's assets and the Subsidiaries' assets is less than the amount required to pay the Company's total Indebtedness (as defined in Section 4.29 hereof), (ii) the Company or the Subsidiaries are unable to pay their debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured, (iii) the Company or the Subsidiaries intend to incur or believe that they will incur debts that would be beyond their ability to pay as such debts mature, or (iv) the Company or the Subsidiaries have unreasonably small capital with which to conduct the business in which they are engaged as such business is now conducted and is proposed to be conducted.

4.8 Absence of Litigation. Except as described in Schedule 4.8 or as specifically disclosed in the SEC Reports, there is no action, suit, claim, or Proceeding (as defined below), or, to the Company's Knowledge, inquiry or investigation, before or by any court, public board, government agency, self-regulatory organization or body pending or, to the Knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries that could, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. For the purposes hereof, "Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, a partial proceeding, such as a deposition), whether commenced or threatened in writing.

4.9 Compliance. Except as described in Schedule 4.9, neither the Company nor any Subsidiary, except in each case as would not, individually or in the aggregate, reasonably be expected to have or result in a Material Adverse Effect, (a) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received written notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (b) is in violation of any order of any court, arbitrator or governmental body, or (c) is or has been in violation of any statute, rule or regulation of any governmental authority.

4.10 Title to Assets. The Company and the Subsidiaries own or lease no real property except as described in Schedule 4.10. The Company and the Subsidiaries have good and marketable title in all personal property owned by them that is material to the business of the Company and the Subsidiaries, in each case free and clear of all Liens, except for Liens in favor of Purchaser and other Liens that could not, if enforced, individually or in the aggregate, reasonably be expected to have or result in a Material Adverse Effect. Any real property and facilities held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases as to which the Company and the Subsidiaries are in material compliance.

4.11 Significant Customers. Schedule 4.11 lists each customer who represented 10% or more of the sales of the Company or of any Subsidiary as of June 30, 2012 (each, a "Significant Customer") and the percentage of the Company's total revenues that such Significant Customer represented. The Company has no outstanding material dispute concerning its business operations with any Significant Customer. No Significant Customer has given notice to the Company, whether orally or in writing, that such customer shall not continue as a customer of the Company after the Initial Closing or that such customer intends to terminate or materially modify existing agreements with the Company at any time.

4.12 No General Solicitation; Placement Agent's Fees. Neither the Company, nor, any of its affiliates, nor any Person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D of the Securities Act) in connection with the offer or sale of the Securities. The Company shall be responsible for the payment of any placement agent's fees, financial advisory fees, or brokers' commission (other than for Persons engaged by Purchaser) relating to or arising out of the issuance of the Securities pursuant to this Agreement. The Company shall pay, and hold Purchaser harmless against, any liability, loss or expense (including, without limitation, reasonable attorney's fees and out-of-pocket expenses) arising in connection with any such claim for fees arising out of the issuance of the Securities pursuant to this Agreement. Except as set forth in Schedule 4.12, to the Company's Knowledge, there is no basis for any such claim for fees arising out of the issuance of the Securities pursuant to this Agreement, and no such claim has been asserted.

4.13 Private Placement. Neither the Company nor, to the Company's Knowledge, any of its affiliates nor, any Person acting on the Company's behalf has, directly or indirectly, made any offer or sale of any security or solicitation of any offer to buy any security under circumstances that would (i) eliminate the availability of the exemption from registration under Regulation D under the Securities Act in connection with the offer and sale by the Company of the Securities as contemplated hereby, or (ii) cause the offering of the Securities pursuant to the Transaction Documents to be integrated with prior offerings by the Company for purposes of any applicable law, regulation or stockholder approval provisions, including, without limitation, under the rules and regulations of any Trading Market. The sale and issuance of the Securities hereunder does not contravene the rules and regulations of any Trading Market on which the Common Stock is listed or quoted.

4.14 Company not an "Investment Company". The Company is not required to be registered as, and is not an affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended (the "Investment Company Act").

4.15 Listing and Maintenance Requirements. Except as described in Schedule 4.15, the Company has not, since December 31, 2009, received notice (written or oral) from any Trading Market on which the Common Stock is or has been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in material compliance with all such listing and maintenance requirements.

4.16 Registration Rights. Except as provided for in this Agreement or as described in Schedule 4.16, the Company has not granted or agreed to grant to any Person any rights (including "piggy-back" registration rights) to have any securities of the Company registered with the SEC or any other governmental authority that have not been satisfied or waived.

4.17 Application of Takeover Protections. Except as described in Schedule 4.17, there is no control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's charter documents or the laws of its state of incorporation that is or could become applicable to Purchaser as a result of Purchaser and the Company fulfilling their obligations or exercising their rights under the Transaction Documents, including, without limitation, as a result of the Company's issuance of the Securities and Purchaser's ownership of the Securities.

4.18 Disclosure. All disclosure provided by the Company to Purchaser regarding the Company, its business and the transactions contemplated hereby, including the schedules to this Agreement, furnished by or on behalf of the Company are true and correct in all material respects and do not contain any untrue statement of material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. Except for the transactions contemplated by this Agreement, no event or circumstance has occurred or information exists with respect to the Company or any of its Subsidiaries or its or their business, properties, operations or financial condition, which, under applicable law, rule or regulation, requires public disclosure or announcement by the Company but which has not been so publicly announced or disclosed. The Company acknowledges and agrees that Purchaser is not making and has not made any representations or warranties with respect to the transactions contemplated hereby other than those set forth in the Transaction Documents.

4.19 Acknowledgment Regarding Purchaser's Purchase of Securities. Based upon the assumption that the transactions contemplated by this Agreement are consummated in all material respects in conformity with the Transaction Documents, the Company acknowledges and agrees that Purchaser is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated hereby and thereby. The Company further acknowledges that Purchaser is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereby and any advice given by Purchaser or any of its respective representatives or agents in connection with the Transaction Documents and the transactions contemplated hereby and thereby is merely incidental to Purchaser's purchase of the Securities. The Company further represents to Purchaser that the Company's decision to enter into this Agreement has been based solely on the independent evaluation of the transactions contemplated hereby by the Company and its representatives.

4.20 Patents and Trademarks. Except as described in Schedule 4.20, (a) the Company and its Subsidiaries own or possess sufficient rights to conduct their business in the ordinary course, including, without limitation, rights to use all material patents, patent rights, industry standards, trademarks, copyrights, licenses, inventions, trade secrets, trade names and know-how (collectively, "Intellectual Property Rights") as owned or possessed by them or that are necessary for the conduct of their business as now conducted or as proposed to be conducted except where the failure to currently own or possess such rights could not reasonably be expected to have a Material Adverse Effect, (b) neither the Company nor any of its Subsidiaries is infringing any rights of a third party with respect to any Intellectual Property Rights that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, and, since December 31, 2009, neither the Company nor any of its Subsidiaries has received any notice of, or has any Knowledge of, any asserted infringement by the Company or any of its Subsidiaries of, any rights of a third party with respect to any Intellectual Property Rights that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect and (c) since December 31, 2009, neither the Company nor any of its Subsidiaries has received any notice of, or has any Knowledge of, infringement by a third party with respect to any Intellectual Property Rights of the Company or of any Subsidiary that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect. The Company has not used Publicly Available Software (as hereinafter defined), in whole or in part, in the development of any part of its Intellectual Property Rights in a manner that would be reasonably likely to subject the Company or its Intellectual Property Rights, in whole or in part, to all or part of the license obligations of any Publicly Available Software that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect on the Company. "Publicly Available Software" means each of (i) any software that contains, or is derived in any manner (in whole or in part) from, any software that is distributed as free software, open source software (*e.g.*, Linux), or similar licensing and distribution models; and (ii) any software that requires as a condition of use, modification, and/or distribution of such software that such software or other software incorporated into, derived from, or distributed with such software (A) be disclosed or distributed in source code form; (B) be licensed for the purpose of making derivative works; or (C) be redistributable at no or minimal charge. Publicly Available Software includes, without limitation, software licensed or distributed under any of the following licenses or distribution models similar to any of the following: (a) GNU General Public License (GPL) or Lesser/Library GPL (LGPL), (b) the Artistic License (e.g. PERL), (c) the Mozilla Public License, (d) the Netscape Public License, and (e) the Sun Community Source License (SCSL), the Sun Industry Source License (SISL), and the Apache Server License.

4.21 Insurance. As described in Schedule 4.21, the Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses and locations in which the Company and the Subsidiaries are engaged, as applicable. The Company has had continuous insurance coverage during the 12 months preceding the date of this Agreement and has no reason to believe it will not be able to renew its current insurance coverage in the same amounts or obtain new insurance coverage in amounts not less than it currently has with carriers of equal or better ratings.

4.22 Regulatory Permits. The Company and the Subsidiaries hold, and are operating in compliance in all material respects with all material franchises, grants, authorizations, licenses, permits, easements, consents, quotas, certificates and orders (collectively, "Permits") of any federal, state or foreign governmental authority having authority over the Company and the Subsidiaries, or any self-regulatory body regulating the Company's conduct of its business (collectively, "Governmental Authority"), all such Permits are valid and in full force and effect; and the Company and the Subsidiaries have not received notice of any revocation or modification of any such Permits or has reason to believe that any such Permits will be revoked, modified, or not be renewed in the ordinary course.

4.23 Regulatory Compliance. The Company and the Subsidiaries (a) are and at all times have been in material compliance with all applicable federal, state, local and foreign, laws, statutes, rules, regulations, guidance or standards (including the UL standards of the U.S. and the CE standards of Europe) applicable to Company and the Subsidiaries, and the acquisition, ownership, testing, development, manufacture, packaging, processing, use, distribution, marketing, labeling, promotion, sale, offer for sale, storage, import, export or disposal of any product or services manufactured or distributed by the Company (the "Applicable Laws"), except as could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect; (ii) have not received any notice of adverse finding, untitled letter or other correspondence or notice from any Governmental Authority alleging or asserting noncompliance with any Applicable Laws or any licenses, certificates, approvals, clearances, authorizations, permits and supplements or amendments thereto required by any such Applicable Laws ("Authorizations") nor any warning letter from any third party containing any unresolved issues concerning noncompliance with any Applicable Laws or Authorizations that could reasonably be expected to result in a Material Adverse Effect; (iii) possess all material Authorizations and such Authorizations are valid and in full force and effect and are not in violation of any term of any such Authorizations, except where such violation could not reasonably be expected to result in a Material Adverse Effect; (iv) have not received notice of any claim, action, suit, proceeding, hearing, enforcement, investigation, arbitration or other action from any Governmental Authority or third party alleging that any product operation or activity is in violation of any Applicable Laws or Authorizations and have no Knowledge that any such Governmental Authority or third party is considering any such claim, litigation, arbitration, action, suit, investigation or proceeding; (v) have not received notice that any Governmental Authority has taken, is taking or intends to take action to limit, suspend, modify or revoke any Authorizations and the Company has no Knowledge that any such Governmental Authority is considering such action; and (vi) have filed, obtained, maintained or submitted all material reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments as required by any Applicable Laws or Authorizations and that all such reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments were complete and correct in all material respects on the date filed (or were corrected or supplemented by a subsequent submission).

4.24 Workplace Safety. The Company and the Subsidiaries (i) are in compliance, in all material respects, with any and all applicable foreign, federal, state and local laws, rules, regulations, treaties, statutes and codes promulgated by any and all governmental authorities relating to the protection of human health and safety in the workplace ("Occupational Laws"); (ii) have received all material permits, licenses or other approvals required of it under applicable Occupational Laws to conduct its business as currently conducted, except where the failure to obtain such licenses could not reasonably be expected to result in a Material Adverse Effect; and (iii) are in compliance, in all material respects, with all terms and conditions of such permit, license or approval, except where the failure to be in compliance could not reasonably be expected to result in a Material Adverse Effect. No action, proceeding, revocation proceeding, writ, injunction or claim is pending or, to the Company's Knowledge, threatened against the Company or the Subsidiaries relating to Occupational Laws, and the Company does not have Knowledge of any facts, circumstances or developments relating to its operations or cost accounting practices that could reasonably be expected to form the basis for or give rise to such actions, suits, investigations or proceedings.

4.25 Transactions With Affiliates and Employees. Except as described on Schedule 4.25 or as specifically set forth in the SEC Reports, none of the officers, directors or employees of the Company is presently a party to any transaction with the Company or any of its Subsidiaries (other than for ordinary course services as employees, officers or directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any such officer, director or employee or, to the Company's Knowledge, any corporation, partnership, trust or other entity in which any such officer, director, or employee has a substantial interest or is an officer, director, trustee or partner.

4.26 Internal Accounting Controls. The Company and the Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (a) transactions are executed in accordance with management's general or specific authorizations, (b) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (c) access to assets is permitted only in accordance with management's general or specific authorization, and (d) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

4.27 Sarbanes-Oxley Act. The Company is in compliance in all material respects with currently applicable requirements of the Sarbanes-Oxley Act of 2002 and applicable rules and regulations promulgated by the SEC thereunder.

4.28 Foreign Corrupt Practices. Neither the Company nor any of its Subsidiaries nor, to the Knowledge of the Company, any director, officer, agent, employee or other Person acting on behalf of the Company or any of its Subsidiaries has, in the course of its actions for, or on behalf of, the Company (a) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; (b) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (c) violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977, as amended; or (d) made any unlawful bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee.

4.29 Indebtedness. Except as disclosed in Schedule 4.29, neither the Company nor any of its Subsidiaries (i) has any outstanding Indebtedness (as defined below), (ii) has any form of Indebtedness that grants senior Liens, or equivalent rights to any third party over the Liens of Purchaser in the Collateral that secures the obligations of the Company and the Subsidiaries under the Transaction Documents (iii) is in violation of any term of or in default under any contract, agreement or instrument relating to any Indebtedness, except where such violations and defaults could not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect, or (iv) is a party to any contract, agreement or instrument relating to any Indebtedness, the performance of which, in the judgment of the Company's officers, has had or is expected to have a Material Adverse Effect. Schedule 4.29 provides a detailed description of the material terms of any such outstanding Indebtedness. For purposes of this Agreement: (x) "Indebtedness" of any Person means, without duplication (A) all indebtedness for borrowed money, (B) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables entered into in the ordinary course of business), (C) all reimbursement or payment obligations with respect to letters of credit, surety bonds and other similar instruments, (D) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses, (E) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to any property or assets acquired with the proceeds of such indebtedness (even though the rights and remedies of the Company or bank under such agreement in the event of default are limited to repossession or sale of such property), (F) all monetary obligations under any leasing or similar arrangement which, in accordance with GAAP, consistently applied for the periods covered thereby, is classified as a capital lease, (G) all indebtedness referred to in clauses (A) through (F) above secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any mortgage, lien, pledge, charge, security interest or other encumbrance upon or in any property or assets (including accounts and contract rights) owned by any Person, even though the Person which owns such assets or property has not assumed or become liable for the payment of such Indebtedness, and (H) all Contingent Obligations (as defined below) in respect of indebtedness or obligations of others of the kinds referred to in clauses (A) through (G) above; (y) "Contingent Obligations" means, as to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to any Indebtedness, lease, dividend or other obligation of another Person if the primary purpose or intent of the Person incurring such liability, or the primary effect thereof, is to provide assurance to the obligee of such liability that such liability will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such liability will be protected (in whole or in part) against loss with respect thereto; and (z) "Person" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company or a government or any department or agency thereof.

4.30 Employee Relations. Neither the Company nor any of its Subsidiaries is a party to any collective bargaining agreement or employs any member of a union. To the Company's Knowledge, there are no material grievances, disputes or controversies with any union or any other organization of employees of the Company or any subsidiary, or threats of strikes, work stoppages or any asserted pending demands for collective bargaining by any union or organization. To the Knowledge of the Company or any such Subsidiary, no executive officer of the Company or any of its Subsidiaries is in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement, non-competition agreement, or any other contract or agreement or any restrictive covenant, and the continued employment of each such executive officer does not subject the Company or any such Subsidiary to any liability with respect to any of the foregoing matters.

4.31 Labor Matters. The Company and its Subsidiaries are in compliance in all material respects with all federal, state, local and foreign laws and regulations respecting labor, employment and employment practices and benefits, terms and conditions of employment and wages and hours, except where failure to be in compliance would not, either individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

4.32 Environmental Laws. The Company and its Subsidiaries (i) are in compliance in all material respects with any and all Environmental Laws (as hereinafter defined), (ii) have received all material permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in compliance in all material respects with all terms and conditions of any such permit, license or approval except where, in the foregoing clauses (i), (ii) and (iii), the failure to so comply could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. The term "Environmental Laws" means all federal, state, local or foreign laws relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata), including, without limitation, laws relating to emissions, discharges, releases or threatened releases of medical and biological waste or residue, chemicals, pollutants, contaminants, or toxic or hazardous substances or wastes (collectively, "Hazardous Materials") into the environment, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials, as well as all authorizations, codes, decrees, demands or demand letters, injunctions, judgments, licenses, notices or notice letters, orders, permits, plans or regulations issued, entered, promulgated or approved thereunder.

4.33 Subsidiary Rights. Except as set forth in Schedule 4.33 or as specifically disclosed in the SEC Reports, the Company or one of its Subsidiaries has the unrestricted right to vote, and (subject to limitations imposed by applicable law) to receive dividends and distributions on, all capital securities of its Subsidiaries as are owned by the Company or such Subsidiary.

4.34 Tax Status. Except as specifically disclosed in Schedule 4.34 or in the Company's financial statements, the Company and each of its Subsidiaries (i) has made or filed all foreign, federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and (iii) has set aside on its books provision reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by any taxing authority of any jurisdiction, and the Company has no Knowledge of any tax audit or basis for any such claim.

4.35 Accountants. To the Company's Knowledge, Paritz & Company, P.A., the Company's auditors, are independent accountants as required by the Securities Act and the rules and regulations promulgated thereunder.

4.36 Contracts. Except as disclosed in Schedule 4.36, the contracts attached as exhibits to the SEC Reports that are material to the Company are in full force and effect on the date hereof, and neither the Company nor, to the Company's Knowledge, any other party to such contracts is in breach of or default under any of such contracts which would have a Material Adverse Effect.

4.37 Off-Balance Sheet Arrangements. There is no transaction, arrangement or other relationship between the Company and an unconsolidated or other off-balance sheet entity that is required to be disclosed by the Company in its Exchange Act filings and is not so disclosed.

4.38 U.S. Real Property Holding Corporation. The Company is not, nor has it ever been, a U.S. real property holding corporation within the meaning of Section 897 of the Internal Revenue Code of 1986, as amended, and the Company shall so certify upon Purchaser's request.

5. **Representations and Warranties of Purchaser**. Purchaser hereby, represents and warrants to the Company as follows, as of the date hereof and as of the applicable Closing:

5.1 Organization; Authority. Purchaser is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with the requisite limited liability company power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The Purchaser is duly qualified to do business and in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect (as defined in Section 4.2, except that references to the Company therein shall refer to the Purchaser and references to Subsidiary or Subsidiaries shall refer to subsidiaries of the Purchaser, if any). The Purchaser has the requisite limited liability company authority to enter into and to consummate the transactions contemplated by the Transaction Documents to which it is a party and otherwise to carry out its obligations hereunder and thereunder. The purchase by Purchaser of the Notes and Warrants hereunder has been duly authorized by all necessary limited liability company action on the part of such Purchaser. This Agreement has been duly executed and delivered by Purchaser and constitutes the valid and binding obligation of Purchaser, enforceable against it in accordance with its terms, except as may be limited by (i) applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditors rights generally, and (ii) the effect of rules of law governing the availability of specific performance and other equitable remedies.

5.2 No Public Sale or Distribution; Lock-Up Agreement.

(a) Purchaser is (i) acquiring the Notes and the Warrants, and (ii) upon exercise of the Warrants will acquire the Warrant Shares issuable upon exercise thereof, in the ordinary course of business for its own account and not with a view towards, or for resale in connection with, the public sale or distribution thereof, except pursuant to sales registered under the Securities Act or under an exemption from such registration and in compliance with applicable federal and state securities laws, and Purchaser does not have a present arrangement to effect any distribution of the Securities to or through any Person; provided, however, that other than the Purchaser's obligations set forth under the Section 5.2(b) hereof, by making the representations herein, Purchaser does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption under the Securities Act.

(b) Purchaser acknowledges that it may be required to execute a lock-up agreement (the "Lock-Up Agreement") with an underwriter, for itself and as representative of the underwriters, which shall become automatically effective upon the effectiveness of a registration statement in respect of a public equity financing of the Company ("IPO"). Pursuant to such Lock-Up Agreement, Purchaser shall agree not to sell any shares of Common Stock for a period of six months following the closing of the IPO, provided however, that all of the Company's executive officers, directors and any other owner of 5% or more of the shares of Common Stock immediately prior to the closing of the IPO, have agreed to enter into such form of Lock-Up Agreement with respect to all shares of Common Stock beneficially owned by them.

5.3 Purchaser Status. Purchaser understands that the Securities are being offered and sold pursuant to an exemption from registration contained in the Securities Act based in part upon such Purchaser's representations contained in this Agreement, including at the time Purchaser was offered the Securities, it was, and at the date of the Original Agreement it was, an "accredited investor" as defined in Rule 501(a) under the Securities Act or a "qualified institutional buyer" as defined in Rule 144A(a) under the Securities Act. Such Purchaser is not a registered broker-dealer registered under Section 15(a) of the Exchange Act, or a member of the Financial Industry Regulatory Authority ("FINRA") or an entity engaged in the business of being a broker-dealer. Except as otherwise disclosed in writing to the Company on or prior to the date of this Agreement, Purchaser is not affiliated with any broker-dealer registered under Section 15(a) of the Exchange Act, or a member of the FINRA or an entity engaged in the business of being a broker dealer.

5.4 Experience of Purchaser. Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Purchaser understands that it must bear the economic risk of this investment in the Securities indefinitely, and is able to bear such risk and is able to afford a complete loss of such investment.

5.5 Access to Information. Purchaser acknowledges that it has had the opportunity to review the Disclosure Materials and has been afforded: (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Securities and the merits and risks of investing in the Securities; (ii) access to information about the Company and the Subsidiaries and their respective financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment; and (iii) the opportunity to obtain such additional information that the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to the investment. Neither such inquiries nor any other investigation conducted by or on behalf of Purchaser or its representatives or counsel shall modify, amend or affect such Purchaser's right to rely on the truth, accuracy and completeness of the Disclosure Materials and the Company's representations and warranties contained in the Transaction Documents.

5.6 No Governmental Review. Purchaser understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Securities or the fairness or suitability of the investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

5.7 No Conflicts. The execution, delivery and performance by Purchaser of this Agreement and the consummation by Purchaser of the transactions contemplated hereby will not (i) result in a violation of the organizational documents of Purchaser, (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which Purchaser is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws) applicable to Purchaser, except in the case of clauses (ii) and (iii) above, that do not otherwise affect the ability of Purchaser to consummate the transactions contemplated hereby.

5.8 Prohibited Transactions. Purchaser covenants that neither it nor any Person acting on its behalf or pursuant to any understanding with Purchaser will engage, directly or indirectly, in any transactions in the securities, including derivatives, of the Company (including, without limitation, any Short Sales) (a "Transaction") involving any of the Company's securities prior to the time the transactions contemplated by this Agreement are publicly disclosed. Purchaser covenants further that neither it nor any Person acting on its behalf or pursuant to any understanding with Purchaser will engage, directly or indirectly, in any Short Sales involving any of the Company's securities during the time that Purchaser or its affiliates hold the Warrant or any of the Notes are outstanding. "Short Sales" include, without limitation, all "short sales" as defined in Rule 200 promulgated under Regulation SHO under the Exchange Act and all types of direct and indirect stock pledges, forward sale contracts, options, puts, calls, short sales, swaps, derivatives and similar arrangements (including on a total return basis), and sales and other transactions through non-U.S. broker-dealers or foreign regulated brokers.

5.9 Restricted Securities. Purchaser understands that the Securities are characterized as "restricted securities" under the U.S. federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act only in certain limited circumstances.

5.10 Legends. It is understood that certificates evidencing such Securities may bear the legend set forth in Section 10.1 of this Agreement.

5.11 No Legal, Tax or Investment Advice. Purchaser understands that nothing in this Agreement or any other materials presented by or on behalf of the Company to Purchaser in connection with the purchase of the Securities constitutes legal, tax or investment advice. Purchaser has consulted such legal, tax and investment advisors as it, in its sole discretion, has deemed necessary or appropriate in connection with its purchase of the Securities.

5.12 No General Solicitation. The Purchaser acknowledges that the Securities were not offered to the Purchaser by means of any form of general or public solicitation or general advertising, or publicly disseminated advertisements or sales literature, including (i) any advertisement, article, notice or other communication published in any newspaper, magazine, or similar media, or broadcast over television or radio, or (ii) any seminar or meeting to which the Purchaser was invited by any of the foregoing means of communications. The Purchaser, in making the decision to purchase the Securities, has relied upon independent investigation made by it.

6. **Covenants and Agreements**.

6.1 Pre-Closing Covenants and Agreements. The parties hereto covenant and agree to perform or take any and all such actions to effectuate the following from the date of the Original Agreement until the earlier of the Second Closing Date or the termination of this Agreement:

(a) Further Assurances. The parties shall, as may be appropriate, execute such documents and other papers and take such other further actions as may be reasonably required to carry out the provisions hereof and effectuate the transactions contemplated hereby and by the Notes and the Warrants. Each party shall use its commercially reasonable best efforts to fulfill or obtain the fulfillment of the conditions to its obligation to effect the applicable Closing, including promptly obtaining any consent required in connection herewith.

(b) Additional Disclosure. Each party shall promptly notify the other party of, and furnish the other party with any information it may reasonably request with respect to, the occurrence of any event or condition or the existence of any fact that would cause any of the conditions to such other party's obligation to consummate the transactions contemplated by this Agreement not to be fulfilled.

6.2 Post-Closing Covenants and Agreements.

(a) From and after the Initial Closing Date and while any of the Notes are outstanding, the Company shall not, without the prior written consent of Purchaser:

(i) have or incur, or permit any of its Subsidiaries to have or incur any additional Indebtedness, other than (a) the Indebtedness represented by the Notes, (b) Indebtedness disclosed on Schedule 4.29, (c) from and after the Initial Closing, (x) Indebtedness secured by subordinated liens for money borrowed by the Company or the Subsidiaries (other than unsecured loans issued by the government of Israel to the Company or the Subsidiaries) of not more than $6,500,000 (the "Sub Debt Limit"), and (y) guarantees which do not exceed the sum of (I) $2,500,000 plus (II) an amount equal to the Sub Debt Limit less the aggregate principal amount of all Indebtedness (other than unsecured loans issued by the government of Israel to the Company or the Subsidiaries) secured by subordinated liens for money borrowed by the Company or the Subsidiaries outstanding at any time, (d) unsecured loans issued by the government of Israel to the Company or the Subsidiaries of not more than $1,000,000 that are subordinate to the Company's obligations under the Notes, provided, however, that the aggregate additional Indebtedness that the Company and its Subsidiaries are permitted to incur in accordance with the foregoing clauses (a), (b), (c) and (d) shall be increased by an amount equal to 50% of the amount of principal repaid on the Notes in excess of (x) $3 million less (y) all amounts previously paid to repay the principal amount of the Notes, and (e) each Subsidiary in which the Company owns, directly or indirectly, less than 80% of the outstanding capital stock can incur additional Indebtedness in an amount up to 50% of all dividends or other distributions that are paid, directly or indirectly, by such Subsidiary to the Company and which dividends or other distributions are applied by the Company to repay the principal amount of the Notes.

(ii) make, or permit any of its Subsidiaries to make, any dividends or distributions of cash, securities or other assets, with respect to its shares of capital stock;

(iii) issue, or permit any of its Subsidiaries to issue, variable-priced or reset-priced securities other than securities having customary anti-dilution adjustment provisions no more favorable to the holder than those in the Warrants;

(iv) issue, or permit any of its Subsidiaries to issue any shares of Common Stock or other securities convertible into or exercisable for Common Stock, or grant any option or warrant to acquire Common Stock, to any individual or person who immediately prior to such issuance or grant is the beneficial owner of 5% or more of the Company's Common Stock (calculated in accordance with SEC Rule 13d-3) (a "Related Person Equity Grant"), unless it, either (x) obtains the prior written consent of the Purchaser, which consent may be withheld in Purchaser's sole discretion, or (y) grants to Purchaser additional warrants so that Purchaser suffers no dilution of its equity interest in the Company as a result of such issuance or grant;

(v) enter into, or permit any Subsidiary to enter into, any transaction that would be reportable under Item 404(a) of Regulation S-K promulgated by the SEC, but without regard to whether the amount involved exceeds any minimum that may be provided from time to time in such Item 404, and without regard to Instructions 4, 5 and 6 to Item 404(a);

(vi) except as set forth on Schedule 6.2(a)(vi), make, or permit any Subsidiary to make, any payments (whether on payment of pre-existing indebtedness or otherwise) or distributions to, or engage in any transactions with, officers, principal or former principal shareholders or other insiders of the Company or the Subsidiaries (other than salary payments consistent with the past practices of the Company or the Subsidiary), regardless of whether any such payments, distributions or transactions are described in or contemplated by the SEC Reports or the Disclosure Materials;

(vii) issue, or permit any Subsidiary to issue, any debt, or permit any Subsidiary to issue any debt, unless 100% of the cash proceeds thereof, net of any related transaction costs, are applied to repayment of the Notes, in reverse order of issuance, or issue, or permit any Subsidiary to issue any equity, unless 100% of the cash proceeds thereof, net of any related transaction costs, are applied as set forth in the Notes, other than pursuant to Section 6.2(a)(i) hereof;

(viii) guarantee, or permit any Subsidiary to guarantee, any of the assets of the Company or the Subsidiaries as collateral to any other third party; except for (a) guarantees issued in the ordinary course of business to secure advances or milestone payments from customers of the Company or the Subsidiaries or as performance guarantees, in an aggregate amount not exceeding $2,500,000 while the First Note is outstanding and $4,500,000 while the Second Note is outstanding, or (b) the mortgage, pledge or creation of a security interest in any asset of the Company or of any Subsidiary pledged as collateral as required by the terms of the financing by FIBI;

(ix) take, or permit any Subsidiary to take, any corporate or business action (including but not limited to liquidation, dissolution or winding-up of the Company or the Subsidiaries) that would materially change the nature of the Company's business or impair the value of the Collateral securing the obligations of the Company under the Notes or the obligations of the Company and the Subsidiaries under the guaranty agreements executed in connection herewith;

(x) make, or permit any Subsidiary to make, loans or advances other than in the ordinary course of business as described in or contemplated by the SEC Reports or the Disclosure Materials; nor

(xi) grant, or cause any Subsidiary to grant, a Lien against the Collateral (other than Permitted Liens (as hereinafter defined)), whether subordinate or senior to any Liens granted in favor of Purchaser in connection with the transactions contemplated by this Agreement, to a party other than Purchaser, without delivery to Purchaser of an Intercreditor Agreement executed by the proposed lienholder, which terms of such Intercreditor Agreement shall be approved by Purchaser in its sole discretion. "Permitted Liens" mean: (a) Liens for taxes not yet delinquent or which are being contested in good faith by appropriate proceedings (and for the payment of which adequate reserves are provided in accordance with GAAP), (b) any Lien existing on any property or asset prior to the acquisition thereof by the Company or any Subsidiary, provided that (1) such Lien is not created in contemplation of or in connection with such acquisition, (2) such Lien shall not apply to any other property or assets of the Company or such Subsidiary, (3) such Lien shall secure only those obligations that it secures on the date of such acquisition, and any extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof, and (4) such Lien does not apply to any inventory of the Company or such Subsidiary; (c) Liens arising as a matter of law in connection with the purchase, storage or shipping of goods or assets and proceeds thereof in favor of the seller, storer or shipper of such goods or assets and (d) Liens arising as a matter of law in favor of customs and revenues authorities which secure payment of customs duties in connection with the importation of goods.

(b) From and after the Initial Closing Date and while any of the Notes are outstanding:

(i) the Company shall, in addition to complying with its reporting and other obligations under U.S. federal securities laws (whether as a consequence of its registration obligations under this Agreement or otherwise), within four months following the Second Closing, satisfy the corporate governance requirements under NASDAQ Marketplace Rule 5605 (relating to Board and Board committee composition, process and decision-making), Rule 5610 (relating to codes of conduct) and Rule 5630 (relating to the review and approval of related-party transactions) as if the Common Stock was listed on NASDAQ; provided however, that in the absence of an actual NASDAQ listing, (a) nothing in this Section 6.2(b) shall (i) be deemed to require Company compliance with the stockholder approval requirements of NASDAQ Marketplace Rule 5635, or (ii) be deemed to provide any rights to any stockholder or person other than the Purchaser, and (b) this Section 6.2(b) may be waived with the prior written consent of the Purchaser;

(ii) the Company shall execute, or cause any Subsidiary to execute such additional instruments and take such actions as may be reasonably requested by the Purchaser, including providing annual audited and quarterly unaudited financial statements and internal management-prepared monthly cash flow statements of the Company and/or the Subsidiaries; and

(iii) the Company shall allow, or cause any Subsidiary to allow the Purchaser and its authorized representatives reasonable access upon reasonable advance notice during normal business hours to the Company, the Subsidiaries and their respective properties, equipment, books, records, contracts, documents (including, in each case, such information stored in an electronic medium) and key personnel for the purpose of inspection. It being understood that the rights of Purchaser hereunder shall not be exercised in such a manner as to unreasonably interfere with the operations of the Company's business.

7. **Conditions Precedent to the Obligation of Purchaser to Close.** The obligation of Purchaser to complete the Initial Closing with respect to the First Note and the Second Closing with respect to the Second Note are subject to the fulfillment on or prior to the Initial Closing Date or the Second Closing Date, as applicable, of all of the following conditions, any one or more of which may be waived by Purchaser in writing and in its sole discretion:

(a) Representations and Warranties. The representations and warranties of the Company contained in Section 4 shall be true in all material respects on and as of the applicable Closing except in any such case (x) for changes contemplated by this Agreement, and (y) to the extent that any such representation or warranty is made as of a specified date, in which case such representation or warranty shall remain true in all material respects, as the case may be, as of such date.

(b) Covenants. On or before the applicable Closing Date, the Company shall have complied with and duly performed and satisfied all the covenants contained in Section 6, as applicable.

(c) Agreements and Conditions. On or before the applicable Closing Date, the Company shall have complied with and duly performed and satisfied in all material respects all agreements and conditions on its part to be complied with and performed by such date pursuant to this Agreement.

(d) Capitalization. Immediately prior to the Initial Closing Date, the Company shall have (i) 100,000,000 authorized shares of Common Stock, (ii) 5,000,000 authorized shares of preferred stock, (iii) 6,483,000 shares of Common Stock issued and outstanding, (iv) no shares of preferred stock issued and outstanding, (v) no shares reserved for issuance upon conversion of Indebtedness, (vi) no shares reserved for issuance upon conversion of preferred stock, (vii) no shares reserved for issuance upon exercise of warrants, and (viii) 500,000 shares reserved for issuance upon exercise of options.

(e) Consents. The Company shall have obtained any consents necessary to effectuate this Agreement and to consummate the transactions contemplated hereby and delivered copies thereof to Purchaser.

(f) Target Company Acquisition. The closing of the Target Company Acquisition shall occur currently with the Second Closing, and a Second Warrant shall have been issued to the extent required pursuant to this Agreement.

(g) Delivery of the Notes and Warrant. On or before the applicable Closing Date, the Company shall have duly executed and delivered to Purchaser the Note and Warrant being purchased pursuant to this Agreement.

(h) Compliance Certificate. The Chief Executive Officer of the Company shall deliver to Purchaser at the applicable Closing Date, a certificate certifying that the conditions specified in Section 7(a) through Section 7(e) (and through Section 7(f) with respect to the Second Closing), have been fulfilled.

(i) Delivery of Pledged Shares. Other than shares which are pledged for the benefit of FIBI, on or before the Initial Closing Date, the Company shall have delivered certificates representing all of the issued and outstanding shares of the Subsidiaries, duly endorsed in blank or accompanied by executed stock powers, in accordance with the terms and conditions of the applicable pledge and security agreement, and on or before the Second Closing Date, (x) the Company shall have delivered certificates representing all of the equity interests in the Target Company representing the Target Company Pledge, duly endorsed in blank or accompanied by executed stock powers, in accordance with the terms and conditions of the Target Company Pledge Agreement and (y) the Company shall have delivered certificates representing all of the equity interest in the Company representing the D.I. Capital Pledge, duly endorsed in blank or accompanied by executed stock powers, in accordance with the terms and conditions of the Individual Pledge Agreement.

(j) Key Employee Agreements. On or before the applicable Closing Date, the key employees and the senior executives of the Company and the Subsidiaries shall have executed and delivered to the Purchaser confidentiality and non-solicitation of customer agreements, in a form reasonably satisfactory to the Purchaser, which agreements may not be amended or waived without the consent of the Purchaser while any Note remains outstanding.

(k) Applicable Board Resolutions. The Company shall deliver to the Purchaser copies of (i) a unanimous written consent of the Board of the Directors of the Company authorizing the execution, delivery and performance of the applicable Transaction Documents by the Company and (ii) unanimous written consents or otherwise duly authorized action of each applicable Subsidiaries authorizing the execution, delivery and performance of the applicable Transaction Documents by such Subsidiaries.

(l) Commitment Fee. At the Initial Closing, the Company paid to Purchaser a one-time commitment fee of twenty-five thousand dollars ($25,000), and at the Second Closing, the Company shall pay to Purchaser a one-time commitment fee of ten thousand dollars ($10,000). At the option of Purchaser, such commitment fee payable at the Second Closing may be paid by offset against the cash purchase price payable for the Second Note purchased at the Second Closing.

(m) Opinion of Company Counsels. At the Initial Closing, Purchaser shall have received from Olshan Grundman Frome Rosenzweig & Wolosky LLP, as US counsel for the Company, an opinion, dated as of the Initial Closing, in substantially the form of Exhibit F-1 attached hereto and, at the Initial Closing and the Second Closing, from Hermann, Makov & Co., Advocates, as Israeli counsel for the Company, an opinion, dated as of the applicable Closing Date, in substantially the form of Exhibit F-2 attached hereto.

(n) Company Pledge and Security Agreement; Subsidiary Guarantee and Pledge and Security Agreements. On or before the applicable Closing Date, the Company and the Subsidiaries shall have executed and delivered to Purchaser the agreements described in Section 3 hereof.

8. **Conditions Precedent to the Obligation of the Company to Close** The obligation of the Company to complete the applicable Closing is subject to the fulfillment on or prior to the applicable Closing Date of all of the following conditions, any one or more of which may be waived by the Company in writing:

(a) Representations and Warranties. The representations and warranties of Purchaser contained in Section 5 shall be true on and as of each Closing.

(b) Agreements and Conditions. On or before the applicable Closing Date, Purchaser shall have complied with and performed and satisfied in all material respects all agreements and conditions to be complied with and performed by such date pursuant to this Agreement.

(c) Consents. Purchaser shall have obtained any consents necessary to effectuate this Agreement and to consummate the transactions contemplated hereby and delivered copies thereof to the Company.

(d) Payment of Purchase Price. On or before the applicable Closing Date, Purchaser shall have paid to the Company the Initial Closing Date Purchase Price or the Second Note Principal Amount, as applicable, for the applicable Note, less any offsets expressly permitted pursuant to this Agreement.

9. **Use of Proceeds**.

(a) The Company used the net proceeds (net of any fees and transaction expenses) from the sale of the First Note, for the exclusive purpose of paying working capital costs of the Company and the Subsidiaries and expenses associated with the negotiation and consummation of the transactions contemplated by the Original Agreement.

(b) The Company shall use the net proceeds (net of any fees and transaction expenses) from the sale of the Second Note, for the exclusive purpose of paying the Target Company Acquisition related costs.

10. **Restrictions on Transferability**.

10.1 Restrictive Legend. Purchaser understands that, until such time as a registration statement pursuant to the Securities Act has been declared effective or the Warrant Shares may be sold pursuant to Rule 144(b) under the Securities Act without any restriction as to the number of securities as of a particular date that can then be immediately resold, the certificate(s) representing the Warrant Shares shall bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of the certificates for the securities comprising the Warrant Shares):

> THE SECURITIES REPRESENTED HEREBY HAVE BEEN ISSUED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAWS, AND MAY NOT BE SOLD, TRANSFERRED OR PLEDGED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT THE TRANSFER IS EXEMPT FROM REGISTRATION UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS.

10.2 Restrictions on Transferability. Purchaser hereby covenants with the Company not to effect any resale or other disposition of any of the Warrant Shares without complying with the provisions of this Agreement, and without effectively causing any prospectus delivery requirement under the Securities Act to be satisfied, and Purchaser acknowledges and agrees that such Warrant Shares are not transferable on the books of the Company unless (a) the Warrant Shares have been sold in accordance with an effective registration statement or valid exemptions from registration under the Securities Act and any applicable state securities or "blue sky" laws, (b) prior to such time that a registration statement shall have become effective under the Securities Act, Purchaser shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of the Warrant Shares under the Securities Act and (c) if applicable, the requirement of delivering a current prospectus has been satisfied. Purchaser acknowledges that the Company is not obligated to file and may not file any such registration statement with the SEC, except as set forth herein.

11. **Registration Rights**.

11.1 Demand Registration.

(a) If, at any time after nine months following the Initial Closing Date, Purchaser decides it may sell or otherwise dispose of the Registrable Securities (as defined below), then Purchaser may deliver a written request to the Company requesting that the Company prepare and file a registration statement under the Securities Act or any successor statute covering such Registrable Securities and specifying the intended method of the proposed disposition and the portion of the Registrable Securities to be sold or disposed (each such request shall be referred to herein as a "Demand Registration"). "Registrable Securities" shall mean shares of Common Stock issued or issuable to Purchaser under the Warrants, together with any securities issued or issuable upon any stock split, dividend or other distribution, recapitalization or similar event with respect to the foregoing, provided however, that Registrable Securities shall not include any shares (i) the sale of which has been and continues to be registered pursuant to the Securities Act or (ii) which may be sold without restriction (including volume restrictions) pursuant to Rule 144 under the Securities Act.

(b) Upon receipt of the Demand Registration, as expeditiously as reasonably possible, the Company shall use its commercially reasonably best efforts to cause an appropriate registration statement (the "Registration Statement") covering such Registrable Securities to be filed with the SEC and to be declared effective as soon as reasonably practicable, except in the event that the Company is advised by counsel that the filing of a Registration Statement would not be permitted under the Securities Act due to the Company's not having current audited financial statements or other financial statements required by Regulation S-X (in any such case the Company shall use its best efforts to obtain such financial statements as soon as possible). Within ten (10) business days after completion of such financial statements, the Company shall file such Registration Statement. Furthermore, if the Company shall furnish to Purchaser a certificate signed by the chief executive officer of the Company stating that, in the good faith judgment of the Board of Directors of the Company, the immediate filing of such Registration Statement would have a material detrimental effect on the Company because either (i) a material acquisition or disposition by the Company is being negotiated or has been publicly announced or (ii) the Company intends, within thirty (30) days, to file a registration statement for the Company's initial firm commitment underwritten public offering of equity securities, the Company shall have the right to defer such filing for a period of not more than sixty (60) days after receipt of the request of Purchaser requesting such registration; provided, however, that the Company may not utilize this right more than once in any twelve (12) month period

(c) The Company shall not be obligated to effect more than one (1) Demand Registration. A Demand Registration under this Section 11.1 shall not be deemed to have occurred unless the Registration Statement relating thereto (A) has become effective under the Securities Act and (B) has remained effective for a period of at least 24 months (or such shorter period in which all of Purchaser's Registrable Securities included thereunder have actually been sold), provided that such Registration Statement shall not be considered a Demand Registration if, after such Registration Statement becomes effective, such Registration Statement is interfered with by any stop order, injunction or other order or requirement of the SEC or other governmental agency or court that is not extinguished.

(d) The Company shall bear all of the costs and expenses relating to the Registration Statement, including, but not limited to, registration, filing and qualification fees, printing expenses, reasonable accounting and legal fees (including Purchaser's attorneys' legal fees up to $5,000) and disbursements, provided however, that underwriting discounts and commissions and reimbursable underwriters' expenses will be borne pro-rata by Purchaser based on the number of Purchaser's Registrable Securities covered by the Registration Statement in relation to the total number of shares covered by the Registration Statement (collectively, the "Costs and Expenses").

11.2 Piggyback Registration. If at any time the Company shall propose the filing of a Registration Statement on an appropriate form under the Securities Act of any securities of the Company, but excluding Registration Statements relating to any registration under Section 11.1 or to any employee benefit plan or a corporate reorganization, then the Company shall give Purchaser notice of such proposed registration and shall include in any Registration Statement relating to such securities all or a portion of Purchaser's Registrable Securities as Purchaser shall request, by notice given by Purchaser to the Company within twenty (20) days after the giving of such notice by the Company, to be so included. In the event of the inclusion of Registrable Securities pursuant to this Section 11.2, the Company shall bear all of the Costs and Expenses of such registration; provided, however, that Purchaser shall be obligated to pay, pro rata based upon the number of Registrable Securities included therein, the underwriters' discounts and commissions and reimbursable underwriters' expenses. In the event the distribution of securities of the Company covered by a Registration Statement referred to in this Section 11.2 is to be underwritten, then the Company's obligation to include Registrable Securities in such Registration Statement shall be subject, at the option of the Company, to the following further conditions:

(a) The distribution for the account of Purchaser shall be underwritten by the same underwriters who are underwriting the distribution of the securities for the account of the Company and/or any other persons whose securities are covered by such Registration Statement, and Purchaser will enter into an agreement with such underwriters containing customary provisions;

(b) If the underwriting agreement entered into with the aforesaid underwriters contains restrictions upon the sale of securities of the Company, other than the securities which are to be included in the proposed distribution, for a period not exceeding one hundred eighty (180) days from the effective date of the Registration Statement, then such restrictions will be binding upon Purchaser and, if requested by the Company, Purchaser will enter into a written agreement to that effect; and

(c) If the underwriters state in writing that they are unwilling to include any or all of Purchaser's securities in the proposed offering because such inclusion will materially interfere with the orderly sale and distribution of the securities being offered by the Company, then the number of Purchaser's Registrable Securities to be included will be reduced in accordance with such statement by the underwriters.

11.3 Amendment of Registration Rights. The registration rights provisions under this Section 11 may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of Purchaser.

11.4 Registration Procedures. In connection with the filing of a Registration Statement pursuant to Section 11 hereof, and in supplementation and not in limitation of the provisions hereof, the Company shall:

(a) Notify Purchaser as to the filing of the Registration Statement and of all amendments or supplements thereto filed prior to the effective date of said Registration Statement;

(b) Notify Purchaser, promptly after the Company shall receive notice of the time when said Registration Statement became effective or when any amendment or supplement to any prospectus forming a part of said Registration Statement has been filed;

(c) Notify Purchaser promptly of any request by the SEC for the amending or supplementing of such Registration Statement or prospectus or for additional information;

(d) Prepare and promptly file with the SEC, and promptly notify Purchaser of the filing of, any amendments or supplements to such Registration Statement or prospectus as may be necessary to correct any material misstatements or omissions;

(e) Prepare and file with the SEC any amendments or supplements to such Registration Statement or prospectus which may be reasonably necessary or advisable in connection with the distribution of the Registrable Securities;

(f) Prepare, promptly upon request of Purchaser or any underwriters for Purchaser, such amendment or amendments to such Registration Statement and such prospectus or prospectuses as may be reasonably necessary to permit compliance with the requirements of the Securities Act;

(g) Advise Purchaser promptly after the Company shall receive notice or obtain knowledge of the issuance of any stop order by the SEC suspending the effectiveness of any such Registration Statement or amendment thereto; or the initiation or threatening of any proceeding for that purpose. In such event, the Company shall promptly use its commercially reasonable best efforts to prevent the issuance of any stop order or obtain its withdrawal promptly if such stop order should be issued;

(h) Furnish Purchaser, as soon as available, copies of any Registration Statement and each preliminary or final prospectus, or supplement or amendment required to be prepared pursuant hereto, all in such quantities as Purchaser may, from time to time, reasonably request; and

(i) If requested by Purchaser, enter into an agreement with the underwriters of the Registrable Securities being registered containing customary provisions and reflecting the foregoing.

12. **Rule 144 Reporting.** With a view to making available to Purchaser the benefits of certain rules and regulations of the SEC, which may permit the resale of the Warrant Shares to the public without registration, the Company agrees after the date hereof to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144(c) under the Securities Act;

(b) file with the SEC all reports and other documents required of the Company under the Securities Act and the Exchange Act (it being expressly acknowledged by the parties hereto that if the Company's annual report on Form 10-K or quarterly report on Form 10-Q is not filed with the SEC within forty-five (45) days of the date required under the rules and regulations of the SEC (after giving effect to any Rule 12b-25 extensions under the Exchange Act), such failure shall be deemed an Event of Default under the Notes; and

(c) so long as Purchaser owns any Registrable Securities, furnish to Purchaser promptly upon request a written statement by the Company as to its compliance with the reporting requirements of said Rule 144, and of the Securities Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed by the Company as Purchaser may reasonably request in writing in complying with any rule or regulation of the SEC allowing Purchaser to sell any such securities without registration.

13. **Indemnification**.

13.1 Indemnification by the Company. The Company shall indemnify and hold harmless Purchaser, its officers, directors, partners, members, agents and employees, each Person who controls Purchaser (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, partners, members, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, settlement costs and expenses, including, without limitation, reasonable attorneys' fees (collectively, "Losses"), as incurred, arising out of or relating to: (i) any material misrepresentation or material breach by the Company of any representation or warranty made by the Company in the Transaction Documents or any other certificate, instrument or document contemplated hereby or thereby; (ii) any material breach by the Company of any covenant, agreement or obligation of the Company contained in the Transaction Documents or any other certificate, instrument or document contemplated hereby or thereby; (iii) any cause of action, suit or claim brought or made against such Indemnified Party (as defined in Section 13.3 hereof) by a third party (including for these purposes a derivative action brought on behalf of the Company), arising out of or resulting from (x) the execution, delivery, performance or enforcement of the Transaction Documents or any other certificate, instrument or document contemplated hereby or thereby, (y) any transaction financed or to be financed in whole or in part, directly or indirectly, with the proceeds of the issuance of the Securities, or (z) the status of Indemnified Party as holder of the Securities; or (iv) any untrue or alleged untrue statement of a material fact contained in the Registration Statement or any form of Company prospectus or in any amendment or supplement thereto or in any Company preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any form of prospectus or supplement thereto, in the light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that (A) such untrue statements, alleged untrue statements, omissions or alleged omissions are based solely upon information regarding Purchaser furnished in writing to the Company by Purchaser for use therein, or to the extent that such information relates to Purchaser or Purchaser's proposed method of distribution of Registrable Securities and was reviewed and approved by Purchaser or its counsel expressly for use in the Registration Statement, or (B) with respect to any prospectus, if the untrue statement or omission of material fact contained in such prospectus was corrected on a timely basis in the prospectus, as then amended or supplemented, if such corrected prospectus was timely made available by the Company to Purchaser, and Purchaser seeking indemnity hereunder was advised in writing not to use the incorrect prospectus prior to the use giving rise to Losses. Notwithstanding anything contained herein to the contrary, no Indemnifying Party (as hereinafter defined) shall be obligated to indemnify an Indemnified Party (as hereinafter defined) hereunder for that portion of any Losses that have been the result of the gross negligence or willful misconduct of such Indemnified Party or the breach of a Transaction Document by an Indemnified Party.

13.2 Indemnification by Purchaser. Purchaser shall indemnify and hold harmless the Company, its officers, directors, partners, members, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, partners, members, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all Losses, as incurred, arising out of or relating to any untrue or alleged untrue statement of a material fact contained in the Registration Statement or any form of Company prospectus or in any amendment or supplement thereto or in any Company preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any form of prospectus or supplement thereto, in the light of the circumstances under which they were made) not misleading, to the extent, that (A) such untrue statements, alleged untrue statements, omissions or alleged omissions are based solely upon information regarding Purchaser furnished in writing to the Company by Purchaser for use therein, or to the extent that such information relates to Purchaser or Purchaser's proposed method of distribution of Registrable Securities and was reviewed and approved by Purchaser or its counsel expressly for use in the Registration Statement, or (B) with respect to any prospectus, if the untrue statement or omission of material fact contained in such prospectus was corrected on a timely basis in the prospectus, as then amended or supplemented, if such corrected prospectus was timely made available by Purchaser to the Company, and the Company seeking indemnity hereunder was advised in writing not to use the incorrect prospectus prior to the use giving rise to Losses. Notwithstanding anything contained herein to the contrary, no Indemnifying Party (as hereinafter defined) shall be obligated to indemnify an Indemnified Party (as hereinafter defined) hereunder for that portion of any Losses that have been the result of the gross negligence or willful misconduct of such Indemnified Party or the breach of a Transaction Document by an Indemnified Party.

13.3 Conduct of Indemnification Proceedings.

(a) If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party shall promptly notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall assume the exclusive defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

(b) An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (i) the Indemnifying Party has agreed in writing to pay such fees and expenses; (ii) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (iii) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and the reasonable fees and expenses of separate counsel shall be at the expense of the Indemnifying Party). It shall be understood, however, that the Indemnifying Party shall not, in connection with any one such Proceeding (including separate Proceedings that have been or will be consolidated before a single judge) be liable for the fees and expenses of more than one separate firm of attorneys at any time for all Indemnified Parties, which firm shall be appointed by a majority of the Indemnified Parties. The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

(c) All reasonable fees and expenses of the Indemnified Party required to be paid by an Indemnifying Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section 13.3) shall be paid to the Indemnified Party, as incurred, within 20 Trading Days (defined below) of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder). For purposes of this Agreement, "Trading Day" means (i) a day on which the Common Stock is traded or is eligible to be traded on a Trading Market, or (ii) if the Common Stock is not listed on a Trading Market, a day on which the Common Stock is traded or is eligible to be traded in the over-the-counter market, as reported by the OTC Bulletin Board, or (iii) if the Common Stock is not quoted on any Trading Market, a day on which the Common Stock is quoted in the over-the-counter market as reported by the OTC Markets Group Inc. (or any similar organization or agency succeeding to its functions of reporting prices); provided, that in the event that the Common Stock is not listed or quoted as set forth in (i), (ii) and (iii) hereof, then Trading Day shall mean a Business Day.

13.4 Contribution.

(a) If a claim for indemnification under Section 13.1 or Section 13.2 is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 13.3, any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section 13.4 was available to such party in accordance with its terms.

(b) The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 13.4 were determined by *pro rata* allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 13.4, Purchaser shall not be required to contribute, in the aggregate, any amount in excess of the amount by which the proceeds actually received by Purchaser from the sale of the Registrable Securities subject to the Proceeding exceed the amount of any damages that such Purchaser has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

(c) The indemnity and contribution agreements contained in this Section 13.4 are in addition to any other rights or remedies that the Indemnified Party have against the Indemnifying Parties; provided, however, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions of the underwriting agreement shall control.

14. **Miscellaneous**.

14.1 Termination. This Agreement may be terminated by the Company or Purchaser, by written notice to the other parties, if the Initial Closing has not been consummated by 11:00 a.m. (New York City time), on September 3, 2011; provided that no such termination will affect the right of any party to sue for any breach by the other party (or parties).

14.2 Fees and Expenses.

(a) Except as expressly set forth in the Transaction Documents to the contrary, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement.

(b) The Company agrees to reimburse Purchaser at the Second Closing (or, at Purchaser's option, promptly thereafter) for all reasonable documented out-of-pocket legal fees, due diligence expenses and other expenses incurred for services relating to the transactions contemplated herein, including any reasonable documented out-of-pocket legal fees and other reasonable expenses related to Purchaser's review of the Company's compliance with post-closing covenants, including those related to delivery of security interests in the Target Company as required by the Transaction Documents, provided that travel expenses in excess of two thousand dollars ($2,000) shall be pre-approved by the Company. The foregoing reimbursement obligation of the Company shall be enforceable by Purchaser regardless of whether the Second Closing occur.

(c) In addition to the reimbursement obligation of the Company set forth in Section 14.2(b) above, during the period of time in which all of, or a portion of, the principal amount of the Notes remain outstanding, the Company agrees to reimburse Purchaser for reasonable documented out-of-pocket legal fees and other reasonable expenses incurred in connection with Purchaser's enforcement of its rights under the Transaction Documents, including costs of negotiating any future subordination or loan extension arrangement with the Company or third party lenders.

(d) Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules. At or after the applicable Closing, and without further consideration, each party agrees to execute and deliver to the other party such further documents as may be reasonably requested in order to give practical effect to the intention of the parties under the Transaction Documents.

14.3 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile or email at the facsimile number or email address specified on the signature pages hereto prior to 6:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile or email at the facsimile number or email address specified on the signature pages hereto on a day that is not a Trading Day or later than 6:30 p.m. (New York City time) on any Trading Day, (c) the Trading Day following the date of deposit with a nationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given. The addresses, facsimile numbers and email addresses for such notices and communications are those set forth on the signature pages hereof, or such other address or facsimile number as may be designated in writing hereafter, in the same manner, by any such Person.

14.4 Amendments; Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and Purchaser or, in the case of a waiver, by the party against whom enforcement of any such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

14.5 Construction. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

14.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of Purchaser. Purchaser may assign its rights under this Agreement to any Person to whom Purchaser assigns or transfers or will assign or transfer (including by way of distribution to its members, partners or stockholders) any Securities, provided (i) such transferor agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company after such assignment, (ii) at least five days prior to such assignment, the Company is furnished with written notice of (x) the name and address of such transferee or assignee and (y) the Registrable Securities with respect to which such registration rights are being transferred or assigned, (iii) following such transfer or assignment, the further disposition of such Securities by the transferee or assignee is restricted under the Securities Act and applicable state securities laws, (iv) such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions hereof that apply to the "Purchaser" and (v) such transfer shall have been made in accordance with the applicable requirements of this Agreement and with all laws applicable thereto.

14.7 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto, and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except that each Indemnified Party is an intended third-party beneficiary of Section 13 and (in each case) may enforce the provisions of such section directly against the parties with obligations thereunder.

14.8 Governing Law; Venue; Waiver of Jury Trial. ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, ENFORCEMENT AND INTERPRETATION OF THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAWS THEREOF TO THE EXTENT THAT THE GENERAL APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY. THE COMPANY AND PURCHASER HEREBY IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITTING IN THE CITY OF NEW YORK, BOROUGH OF MANHATTAN FOR THE ADJUDICATION OF ANY DISPUTE BROUGHT BY THE COMPANY OR PURCHASER HEREUNDER, ARISING FROM OR IN CONNECTION HEREWITH OR WITH ANY TRANSACTION CONTEMPLATED HEREBY OR DISCUSSED HEREIN (INCLUDING WITH RESPECT TO THE ENFORCEMENT OF ANY OF THE TRANSACTION DOCUMENTS), AND HEREBY IRREVOCABLY WAIVE, AND AGREE NOT TO ASSERT IN ANY SUIT, ACTION OR PROCEEDING BROUGHT BY THE COMPANY OR PURCHASER, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF ANY SUCH COURT, OR THAT SUCH SUIT, ACTION OR PROCEEDING IS IMPROPER. EACH PARTY HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO PROCESS BEING SERVED IN ANY SUCH SUIT, ACTION OR PROCEEDING BY MAILING A COPY THEREOF VIA REGISTERED OR CERTIFIED MAIL OR OVERNIGHT DELIVERY (WITH EVIDENCE OF DELIVERY) TO SUCH PARTY AT THE ADDRESS IN EFFECT FOR NOTICES TO IT UNDER THIS AGREEMENT AND AGREES THAT SUCH SERVICE SHALL CONSTITUTE GOOD AND SUFFICIENT SERVICE OF PROCESS AND NOTICE THEREOF. NOTHING CONTAINED HEREIN SHALL BE DEEMED TO LIMIT IN ANY WAY ANY RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW. THE COMPANY AND PURCHASER HEREBY WAIVE ALL RIGHTS TO A TRIAL BY JURY.

14.9 Survival. The representations, warranties and covenants of the parties contained in this Agreement and the rights to indemnification under this Agreement will survive the date of the Original Agreement and continue until the last to occur of: (i) repayment in full of the Notes, or (ii) a period of nineteen (19) months after the Second Closing Date, except that rights of indemnification with respect to matters arising out of a Registration Statement shall survive for a period of twelve (12) months after the sale of any securities under such Registration Statement.

14.10 Execution. This Agreement may be executed in counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or email attachment, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or email-attached signature page were an original thereof.

14.11 Severability. If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

14.12 Rescission and Withdrawal Right. Notwithstanding anything to the contrary contained in (and without limiting any similar provisions of) the Transaction Documents, whenever the Purchaser exercises a right, election, demand or option owed to such Purchaser by the Company under a Transaction Document and the Company does not timely perform its related obligations within the periods therein provided, then, prior to the performance by the Company of the Company's related obligation, Purchaser may rescind or withdraw, in its sole discretion from time to time upon written notice to the Company, any relevant notice, demand or election in whole or in part without prejudice to its future actions and rights.

14.13 Replacement of Securities. If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof, or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and the execution by the holder thereof of a customary lost certificate affidavit of that fact and an agreement to indemnify and hold harmless the Company for any losses in connection therewith. The applicants for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs associated with the issuance of such replacement Securities.

14.14 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, Purchaser and the Company will be entitled to seek specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations described in the foregoing sentence and hereby agree to waive in any action for specific performance of any such obligation (other than in connection with any action for a temporary restraining order) the defense that a remedy at law would be adequate.

14.15 Payment Set Aside. To the extent that the Company makes a payment or payments to Purchaser hereunder or Purchaser enforces or exercises its rights hereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company by a trustee, receiver or any other person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

14.16 Adjustments in Share Numbers and Prices. In the event of any stock split, subdivision, dividend or distribution payable in shares of Common Stock (or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly shares of Common Stock), combination or other similar recapitalization or event occurring after the date of the Original Agreement, each reference in any Transaction Document to a number of shares or a price per share shall be amended to appropriately account for such event.

14.17 Public Announcement. From and after the date of the Original Agreement, and while any Note is outstanding, the Company and Purchaser will not disclose, shall not cause any Person to disclose, and will not include or cause any Person to include in any public announcement, the name of the other party to this Agreement, unless expressly agreed to by such other party or unless and until such disclosure is required by applicable law or applicable regulation, and then only to the extent of such requirement. Purchaser acknowledges that this Agreement will be filed with the SEC as an exhibit to a periodic or current report of the Company.

14.18 Amendment and Restatement. The Purchaser and the Company hereby agree that, effective upon the execution and delivery of this Agreement by each such party, the terms and provisions of the Original Agreement shall be and hereby are amended, restated and superseded in their entirety by the terms and provisions of this Agreement. The Purchaser and the Company do not intend for this Agreement to constitute a novation of the Original Agreement or the indebtedness and obligations under the Original Agreement, but rather intend for this Agreement to effect an amendment and restatement of the Original Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Note and Warrant Purchase Agreement on the date first above written.

THE COMPANY:

LAPIS TECHNOLOGIES, INC.

By: /s/ David Lucatz
Name: David Lucatz
Title: President & Chief Executive Officer

Address:
70 Kinderkamack Road
Emerson, New Jersey
07630
Email Address:
Facsimile Number:

PURCHASER:

UTA CAPITAL LLC

By: YZT Management LLC, its Managing Member

By: /s/ Udi Toledano
Name: Udi Toledano
Title: Managing Member

Address:
100 Executive Drive
Suite 330
West Orange, NJ 07052
Email Address: udi@aatcap.com
Facsimile Number: 973-736-0201

Exhibit 10.2

Execution Version

FIRST AMENDMENT TO SECURED PROMISSORY NOTE

This FIRST AMENDMENT TO SECURED PROMISSORY NOTE(this "**Amendment**"), dated as of August 31, 2012, by and between LAPIS TECHNOLOGIES INC., a Delaware corporation ("**Borrower**"), and UTA CAPITAL, LLC, a Delaware limited liability company ("**Purchaser**").

W I T N E S S E T H:

WHEREAS, on September 1, 2011, Purchaser made a loan to Borrower in the original principal amount of Three Million Dollars ($3,000,000.00);

WHEREAS, such loan is evidenced by that certain Secured Promissory Note made by Borrower payable to Purchaser, dated as of September 1, 2011, in the principal amount of Three Million Dollars ($3,000,000.00) (the "**Note**"); and

WHEREAS, Purchaser has agreed to extend the date on which the first payment of principal is payable, and in connection therewith, Borrower and Purchaser desire to amend the Note in accordance with the provisions set forth below.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower and Purchaser hereby agree as follows:

1. Amendment of Note. Section 5(c) of the Note is hereby amended and restated in its entirety to read as follows:

"(c) The Borrower shall repay to the Purchaser the Principal Amount in three equal principal payments of $1,000,000 each, the first on December 31, 2012, and the second on the second anniversary date of the date of this Note, with the remaining principal balance due at the Maturity Date."

2. Miscellaneous Provisions.

(a) No Further Amendment. Except as expressly amended by this Amendment, the Note is in all respects ratified and confirmed and all the terms, conditions, representations, warranties, covenants and provisions thereof shall remain in full force and effect in accordance with their respective terms. This Amendment is limited precisely as written and shall not be deemed to be an amendment to any other term or condition of the Note or any of the documents referred to therein. Except as expressly amended by this Amendment, this Amendment does not constitute a waiver of any condition or other provision of the Note.

(b) Effect of Amendment. This Amendment shall form a part of the Note for all purposes. From and after the execution of this Amendment by Borrower and Purchaser, any reference to the Note shall be deemed a reference to the Note, as amended by this Amendment.

(c) Counterparts. This Amendment may be executed in counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or email attachment, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or email-attached signature page were an original thereof.

(d) Severability. If any provision of this Amendment is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Amendment shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Amendment.

(e) GOVERNING LAW; JURISDICTION; WAIVER OF JURY TRIAL. This Amendment and all acts and transactions pursuant hereto shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws to the extent that the general application of the laws of another jurisdiction would be required thereby. The Borrower hereby irrevocably consents to the exclusive jurisdiction of any federal or state court located in the State of New York and consents that all service of process be sent by nationally recognized overnight courier service directed to Borrower at Borrower's address set forth in the Note and service so made will be deemed to be completed on the business day after deposit with such courier. The Borrower acknowledges and agrees that the venue provided above is the most convenient forum for both Purchaser and Borrower. The Borrower waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Note. **THE BORROWER AND THE PURCHASER (BY ACCEPTANCE OF THIS AMENDMENT) MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY AND ALL RIGHTS THAT THEY MAY NOW OR HEREAFTER HAVE UNDER THE LAWS OF THE UNITED STATES OF AMERICA OR ANY STATE THEREOF TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AMENDMENT OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY, INCLUDING, WITHOUT LIMITATION, ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS OR ACTIONS OF THE PURCHASER RELATING TO ENFORCEMENT OF THIS AMENDMENT. EXCEPT AS PROHIBITED BY APPLICABLE LAW, THE BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION RELATING TO ENFORCEMENT OF THIS AMENDMENT ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR THE PURCHASER TO ENTER INTO THIS AMENDMENT.**

[SIGNATURE PAGE TO FOLLOWS]

IN WITNESS WHEREOF, this Amendment has been executed by the parties hereto as of the date first set forth above.

BORROWER:

LAPIS TECHNOLOGIES, INC.

By: /s/ David Lucatz
Name: David Lucatz
Title: President & Chief Executive Officer

Address:
70 Kinderkamack Road
Emerson, New Jersey
07630
Email Address:
Facsimile Number:

PURCHASER:

UTA CAPITAL LLC

By: YZT Management LLC, its Managing Member

By: /s/ Udi Toledano
Name: Udi Toledano
Title: Managing Member

Exhibit 10.3

Execution Version

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ISSUED WITHOUT REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAWS, AND MAY NOT BE SOLD, TRANSFERRED OR PLEDGED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO BORROWER THAT THE TRANSFER IS EXEMPT FROM REGISTRATION UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS.

LAPIS TECHNOLOGIES INC.
SECURED PROMISSORY NOTE

$3,000,000

New York, New York
as of September 7, 2012

FOR VALUE RECEIVED, the undersigned, Lapis Technologies Inc., a Delaware corporation, with an office located at 70 Kinderkamack Road, Emerson, New Jersey 07630 ("Borrower"), hereby unconditionally promises to pay to UTA Capital LLC, a Delaware limited liability company ("Purchaser"), on or before the Maturity Date (as defined in Section 4 hereof) to the order of Purchaser, at the office of Purchaser located at 100 Executive Drive, Suite 330, West Orange, NJ 07052, or such other address designated by Purchaser, in lawful money of the United States of America and in immediately available funds, the principal amount of Three Million Dollars ($3,000,000) (the "Principal Amount"), and all accrued interest thereon and the fees and expenses set forth herein.

1. PURCHASE AGREEMENT. This Secured Promissory Note (the "Note") is executed and delivered in connection with that certain Amended and Restated Note and Warrant Purchase Agreement, dated as of the date hereof, between Borrower and Purchaser (as may be amended from time to time, the "Purchase Agreement"). The Purchaser is entitled to the benefits and subject to certain obligations under the Purchase Agreement and may enforce the agreements of Borrower contained therein and exercise the remedies provided thereby. All words and phrases used herein and not otherwise specifically defined herein shall have the respective meanings assigned to such terms in the Purchase Agreement to the extent the same are used or defined therein.

2. HEADINGS, ETC. The headings and captions of the numbered paragraphs of this Note are for convenience of reference only and are not to be construed as defining or limiting, in any way, the scope or intent of the provisions hereof. Whenever used, the singular number shall include the plural, the plural the singular, and the words "Purchaser" and "Borrower" shall include, respectively, their respective successors and assigns; provided, however, that Borrower shall in no event or under any circumstance have the right to assign or transfer its obligations under this Note.

3. SECURITY. The obligations of Borrower hereunder are secured by (a) a security interest in and pledge of (i) all of the assets of the Borrower, including all of the shares of capital stock of the Borrower's Subsidiaries presently owned or hereinafter acquired, either directly or indirectly, by the Borrower, certain of which security interests and pledges may be subordinate to pledges of such assets to banking institutions that have or may provide credit to the Borrower, and (b) guarantees of all of the obligations of Borrower hereunder being made by the Borrower's Subsidiaries, which guarantees are secured by a security interest in and pledge of all of the assets of the Subsidiaries, including all of the shares of capital stock of the Borrower's other Subsidiaries presently owned or hereinafter acquired, either directly or indirectly, by the guarantor Subsidiaries, certain of which security interests and pledges may be subordinate to pledges of such assets to banking institutions that have or may provide credit to the Subsidiaries, all as more fully described in the Purchase Agreement and the other Transaction Documents.

4. MATURITY. This Note shall mature on April 1, 2014, unless such date shall be otherwise extended in writing by Purchaser in its sole discretion (such date, the "Maturity Date"). On the Maturity Date, all outstanding principal and any accrued and unpaid interest due and owing under the Note shall be immediately paid by Borrower.

5. INTEREST; INTEREST RATE; PAYMENT; ADDITIONAL INTEREST.

(a) This Note shall bear interest (other than interest accruing as a result of a failure by Borrower to pay any amount within three (3) business days of when due as set forth in subparagraph (b) below) at an annual interest rate initially equal to eight percent (8%) per annum on the then outstanding principal balance (the "Interest Rate"). Interest (other than interest accruing as a result of a failure by Borrower to pay any amount when due as set forth in subparagraph (b) below) shall accrue until all amounts owed under the Note shall be fully repaid, and shall be due and payable monthly in arrears on the last business day of each calendar month following the issuance date. Any accrued and unpaid interest shall be due at the Maturity Date. Interest shall be calculated on the basis of the actual number of days elapsed over an assumed year consisting of three hundred sixty-five (365) days.

(b) If all or a portion of the principal amount of the Note or any interest payable thereon shall not be repaid within three (3) business days of when due whether on the applicable repayment date, by acceleration or otherwise, such overdue amounts shall bear interest at a rate per annum that is three percent (3%) above the Interest Rate then in effect, from the date of such non-payment until such amount is paid in full (before as well as after judgment) and shall be due immediately.

(c) The Borrower shall repay to the Purchaser the Principal Amount in two principal payments as follows: One Million Five Hundred Thousand Dollars ($1,500,000) on May 15, 2013, and the remaining principal balance due at the Maturity Date.

(d) All payments to be made by Borrower hereunder shall be made, without setoff or counterclaim, in lawful money of the United States by check or wire transfer in immediately available funds.

6. VOLUNTARY AND MANDATORY PREPAYMENT; PAYMENT RIGHTS UPON MERGER, CONSOLIDATION, ETC.;

(a) The Borrower shall have the right to prepay the principal amount of this Note, without penalty or premium, at any time upon two (2) days' prior written notice to Purchaser.

(b) If, at any time, prior to the Maturity Date, Borrower proposes to consolidate or effect any other corporate reorganization with, or merge into, another corporation or entity that previously did not hold, directly or indirectly, more than twenty percent (20%) of Borrower's Common Stock, whereby such corporation or entity immediately subsequent to such consolidation, merger or reorganization will own capital stock of Borrower or entity surviving such merger, consolidation or reorganization representing more than fifty (50%) percent of the combined voting power of the outstanding securities of Borrower or such entity immediately after such consolidation, merger or reorganization, or has the right to elect nominees to a represent a majority of Borrower's Board of Directors (a "Change of Control Event"), then Borrower shall provide Purchaser with at least ten (10) days' prior written notice of any such proposed action. Upon consummation of the Change of Control Event, Purchaser will, at its option, have the right to demand immediate payment of all amounts due and owing under this Note (including all accrued and unpaid interest) in cash. Purchaser will give Borrower written notice of such demand promptly (but in no event later than five (5) days) following consummation of the Change of Control Event. All amounts due and owing hereunder shall be paid by Borrower to Purchaser within five (5) days from the date of such written notice via federal funds wire transfer(s) of immediately available funds.

(c) Notwithstanding anything hereunder the Borrower acknowledges and agrees that:

(i) any net proceeds of any equity financing by the Borrower or any Subsidiary will be applied as follows: (x) the first $4,000,000 may be retained by the Borrower or applied to reduce other obligations of the Borrower or a Subsidiary, and (y) 50% of the excess of such net proceeds over $4,000,000 may be retained by the Borrower or applied to reduce other obligations of the Borrower or a Subsidiary and the remaining 50% shall be applied (A) first, to repayment of the First Note and (B) second, to the extent any proceeds remain, to the repayment of the Principal Amount;

(ii) any net proceeds of any debt financing by the Borrower or any Subsidiary will be applied 100% as follows: first, to repayment of the First Note, and second, to the extent any proceeds remain, to repayment of the Principal Amount.

7. ASSURANCES WITH RESPECT OF PURCHASER RIGHTS. Borrower shall not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, intentionally avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by Borrower and shall at all times in good faith assist in the carrying out of all the provisions of this Note and in taking of all such actions as may be reasonably necessary or appropriate in order to protect the rights of Purchaser against impairment.

8. SENIOR INDEBTEDNESS. Subject to Section 3.5 of the Purchase Agreement, this Note shall be senior to all other Indebtedness of the Borrower.

9. EVENTS OF DEFAULT. If any of the following events (each, an "Event of Default") shall occur and be continuing:

(a) Borrower shall fail to pay any amount payable under this Note or any other Transaction Document within three (3) business days after such payment becomes due in accordance with the terms hereof;

(b) Borrower or any Subsidiary shall fail to pay when due, and it shall continue unremedied for a period of ten (10) calendar days, whether upon acceleration, prepayment obligation or otherwise, any indebtedness of Borrower or any Subsidiary (other than indebtedness owed to Purchaser under this Note and the other Transaction Documents);

(c) dissolution, termination of existence, suspension (unless fully covered by business interruption insurance) or discontinuance of business (other than as a result of a consolidation of one or more of Borrower's Subsidiaries with Borrower or another Subsidiary) or ceasing to operate as going concern of Borrower or any Subsidiary;

(d) any material representation or warranty made by Borrower herein, in the Purchase Agreement or in any other agreement, certificate or instrument contemplated by this Note or the Purchase Agreement shall have been incorrect in any material respect on or as of the date made or deemed made;

(e) any material portion of the Collateral is subjected to a levy of execution, attachment or other judicial process or any material portion of the Collateral is the subject of a claim (other than by the Purchaser) of a Lien or other right or interest in or to the Collateral and such levy or claim shall not be cured, disputed or stayed within a period of forty-five (45) days after the occurrence thereof;

(f) the Borrower fails, for any reason whatsoever, at the time of the consummation of the Target Company Acquisition, to pledge all equity interests or assets acquired in connection with such acquisition to Purchaser in accordance with the terms set forth in the Transaction Documents;

(g) Borrower shall default, in any material respect, in the observance or performance of any obligation or agreement contained in this Note, the Purchase Agreement, the other Transaction Documents, or any other agreement or instrument contemplated by the Transaction Documents, and such default shall continue unremedied for a period of fifteen (15) days after written notice to Borrower of such default; or

(h) (i) Borrower or any Subsidiary shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, conservatorship or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or Borrower shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against Borrower or any Subsidiary any case, proceeding or other action of a nature referred to in clause (i) above that (A) results in the entry of an order for relief of any such adjudication of appointment or (B) remains undismissed, undischarged or unbonded for a period of forty-five (45) days; or (iii) there shall be commenced against Borrower or any Subsidiary any case, proceeding other action seeking issuance of a warrant of attachment, execution, distrait or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within forty-five (45) days from the entry thereof; or (iv) Borrower or any Subsidiary shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in any of the acts set forth in clauses (i), (ii) or (iii) above; or (v) Borrower or any Subsidiary shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due,

then, and in any such event, (1) if such event is an Event of Default specified in subsection (h) above of this Section 9 with respect to Borrower, automatically this Note (with all accrued and unpaid interest thereon) and all other amounts owing under this Note shall immediately become due and payable, and (2) if such event is any other Event of Default, Purchaser may, by written notice to Borrower, declare the Note (with all accrued and unpaid interest thereon) and all other amounts owing under this Note to be due and payable forthwith, whereupon the same shall immediately become due and payable. Except as expressly provided in this Section 9, presentation, demand, protest and all other notices of any kind are hereby expressly waived by Borrower.

10. ENFORCEABILITY. The Borrower acknowledges that this Note and Borrower's obligations under this Note are and shall at all times continue to be absolute and unconditional in all respects, and shall at all times be valid and enforceable irrespective of any other agreements or circumstances of any nature whatsoever which might otherwise constitute a defense to this Note and the obligations of Borrower under this Note or the obligations of any other Person relating to this Note. The Transaction Documents set forth the entire agreement and understanding of Purchaser and Borrower, and Borrower absolutely, unconditionally and irrevocably waives any and all right to assert any set-off, counterclaim or crossclaim of any nature whatsoever with respect to this Note or the obligations of Borrower hereunder, or the obligations of any other Person relating hereto or thereto or to the obligations of Borrower hereunder or otherwise in any action or proceeding brought by Purchaser to collect on the Note, or any portion thereof (provided, however, that the foregoing shall not be deemed a waiver of Borrower's right to assert any compulsory counterclaim maintained in a court of the United States, or of the State of New York if such counterclaim is compelled under local law or rule of procedure, nor shall the foregoing be deemed a waiver of Borrower's right to assert any claim which would constitute a defense, setoff, counterclaim or crossclaim of any nature whatsoever against Purchaser in any separate action or proceeding). The Borrower acknowledges that no oral or other agreements, conditions, promises, understandings, representations or warranties exist with respect to the Transaction Documents or with respect to the obligations of Borrower thereunder, except those specifically set forth in the Transaction Documents. Borrower agrees to pay all costs and expenses of Purchaser related to Purchaser's enforcement of the obligations of Borrower hereunder and the collection of all sums payable hereunder, including but not limited to reasonable attorneys' fees and expenses, irrespective of whether litigation is commenced. Any such amounts shall be payable on demand, with interest at the rate provided above for overdue principal and interest.

11. WAIVER. Borrower waives presentment, demand for payment, notice of dishonor and any or all notices or demands in connection with the delivery, acceptance, performance, default or enforcement of any Transaction Document now or hereafter required by applicable law, and agrees that no failure or delay on the part of Purchaser, in the exercise of any power, right or remedy under this Note shall impair such power, right or remedy or shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or remedy preclude other or further exercise of such or any other power, right or remedy. No notice to or demand on Borrower shall be deemed to be a waiver of the obligation of Borrower or of the right of Purchaser, to take further action without further notice or demand as provided in any of the Transaction Documents.

12. AMENDMENTS. This Note may not be modified, amended, changed or terminated except by an agreement in writing signed by Borrower and the Purchaser. Any amendment or waiver effected in accordance with this Section 12 shall be binding upon Borrower, Purchaser and each transferee of this Note.

13. USURIOUS INTEREST RATE. Notwithstanding anything to the contrary contained in this Note, the interest paid or agreed to be paid hereunder shall not exceed the maximum rate of non-usurious interest permitted by applicable law (the "Maximum Rate"). If Purchaser shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Note or, if it exceeds such unpaid principal, shall be refunded to Borrower. In determining whether the interest contracted for, charged, or received by Purchaser exceeds the Maximum Rate, Borrower may, to the extent permitted by applicable law, (a) characterize any payment that is not principal as an expense, fee or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of this Note.

14. NOTICES. Any notice required or permitted by this Note shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by a nationally-recognized delivery service (such as Federal Express or UPS), or seventy-two (72) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and in all cases addressed to the party to be notified at such party's address as set forth above on the signature pages to the Purchase Agreement.

15. GOVERNING LAW; JURISDICTION; WAIVER OF JURY TRIAL. This Note and all acts and transactions pursuant hereto shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws to the extent that the general application of the laws of another jurisdiction would be required thereby. The Borrower hereby irrevocably consents to the exclusive jurisdiction of any federal or state court located in the State of New York and consents that all service of process be sent by nationally recognized overnight courier service directed to Borrower at Borrower's address set forth herein and service so made will be deemed to be completed on the business day after deposit with such courier. The Borrower acknowledges and agrees that the venue provided above is the most convenient forum for both Purchaser and Borrower. The Borrower waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Note. **THE BORROWER AND THE PURCHASER (BY ACCEPTANCE OF THIS NOTE) MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY AND ALL RIGHTS THAT THEY MAY NOW OR HEREAFTER HAVE UNDER THE LAWS OF THE UNITED STATES OF AMERICA OR ANY STATE THEREOF TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY, INCLUDING, WITHOUT LIMITATION, ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS OR ACTIONS OF THE PURCHASER RELATING TO ENFORCEMENT OF THIS NOTE. EXCEPT AS PROHIBITED BY APPLICABLE LAW, THE BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION RELATING TO ENFORCEMENT OF THIS NOTE ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR THE PURCHASER TO MAKE FUNDS AVAILABLE TO THE BORROWER AND TO ACCEPT THIS NOTE.**

[Signature page follows]

IN WITNESS WHEREOF, Borrower has duly executed this Secured Promissory Note as of the date first written above.

BORROWER:

LAPIS TECHNOLOGIES, INC.

By: /s/ David Lucatz
Name: David Lucatz
Title: President & Chief Executive Officer

Address:
70 Kinderkamack Road
Emerson, NJ 07630

Exhibit 10.4

Execution Version

NEITHER THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, OR (B) IF REASONABLY REQUESTED BY THE COMPANY, AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT.

LAPIS TECHNOLOGIES INC.

COMMON STOCK PURCHASE WARRANT

Warrant No. UTA 2012 - 2 Dated: as of September 7, 2012

Lapis Technologies Inc., a Delaware corporation (the "**Company**"), hereby certifies that, for value received, UTA Capital LLC, a Delaware limited liability company, or its registered assigns (the "**Holder**"), shall initially be entitled to purchase from the Company up to a total of 600,000 shares of common stock of the Company, $.001 par value per share (each such share, a "**Warrant Share**" and all such shares, the "**Warrant Shares**"), at an exercise price initially equal to $0.65 per Warrant Share for the purchase of the Warrant Shares, as such exercise price may be adjusted pursuant to Section 9 hereof (hereinafter referred to as the "**Exercise Price**"), at any time commencing on the date that is six months after the Second Closing Date, and through and including the date that is sixty-six months after the Second Closing Date (the "**Expiration Date**"), and subject to the following terms and conditions hereof.

This Warrant was issued pursuant to that certain Amended and Restated Note and Warrant Purchase Agreement, dated as of even date herewith, by and among the Company and the Purchaser (the "**Purchase Agreement**").

1. Definitions. In addition to the terms defined elsewhere in this Warrant, capitalized terms that are not otherwise defined herein have the meanings given to such terms in the Purchase Agreement.

2. Registration of Warrant. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "**Warrant Register**"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

3. Registration of Transfers. The Company shall register the transfer of any portion of this Warrant in the Warrant Register, upon surrender of this Warrant, with the Form of Assignment attached hereto as Annex A duly completed and signed, to the transfer agent or to the Company at its address specified herein. Upon any such registration or transfer, a new warrant to purchase shares of Common Stock, in substantially the form of this Warrant (any such new warrant, a "**New Warrant**"), evidencing the portion of this Warrant so transferred shall be issued to the transferee and a New Warrant evidencing the remaining portion of this Warrant not so transferred, if any, shall be issued to the transferring Holder. The acceptance of the New Warrant by the transferee thereof shall be deemed the acceptance by such transferee of all of the rights and obligations of a holder of a Warrant.

4. Exercise and Duration of Warrants.

a. This Warrant shall be exercisable by the registered Holder at any time and from time to time commencing six months after the date hereof, and through and including the Expiration Date. At 6:30 P.M., New York City time on the Expiration Date, the portion of this Warrant not exercised prior thereto shall be and become void and of no value; provided that, this Warrant shall be deemed to have been exercised in full (to the extent not previously exercised) on a "cashless exercise" basis at 6:30 P.M. New York City time on the Expiration Date.

b. A Holder may exercise this Warrant by delivering to the Company (i) an exercise notice, in the form attached hereto asAnnex B (the "**Exercise Notice**"), appropriately completed and duly signed along with the Warrant, and (ii) payment of the Exercise Price for the number of Warrant Shares as to which this Warrant is being exercised (which may take the form of a "cashless exercise" if so indicated in the Exercise Notice), and the date that the last of such items are delivered to the Company (as determined in accordance with the notice provisions hereof) is an "**Exercise Date**." Execution and delivery of the Exercise Notice shall have the same effect as cancellation of the original Warrant and issuance of a New Warrant evidencing the right to purchase the remaining number of Warrant Shares.

c. Insufficient Authorized Shares. If at any time while this Warrant is outstanding, the Company does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of this Warrant and Warrants of like tenor at least a number of shares of Common Stock equal to 100% (the "**Required Reserve Amount**") of the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of all of the Warrants of like tenor then outstanding (an "**Authorized Share Failure**"), then the Company shall immediately take all action necessary to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for the Warrants of like tenor then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than sixty (60) days after the occurrence of such Authorized Share Failure, the Company shall either (i) call a meeting of its stockholders for the approval of an increase in the number of authorized shares of Common Stock or (ii) attempt to obtain the requisite stockholder vote by written consents. In connection with the foregoing, the Company shall provide each stockholder with a proxy statement or an information statement, as the case may be, and, in the case of a stockholders' meeting, shall use its best efforts to solicit its stockholders' approval of such increase in authorized shares of Common Stock and to cause its board of directors to recommend to the stockholders that they approve such proposal.

5. Delivery of Warrant Shares.

a. The Holder shall not be required to physically surrender this Warrant unless this Warrant is being exercised in full. To effect exercises hereunder, the Holder shall duly execute and deliver to the Company at its address for notice set forth herein, an Exercise Notice in the form of Annex B hereto, along with the Warrant Share Exercise Log in the form of Annex C hereto, and shall pay the Exercise Price, if applicable, multiplied by the number of Warrant Shares that the Holder intends to purchase hereunder. The Company shall promptly (but in no event later than five (5) Trading Days after the date of exercise) issue or cause to be issued and cause to be delivered to or upon the written order of the Holder a certificate for the Warrant Shares issuable upon such exercise. The Company shall, upon request of the Holder, and subsequent to the date on which a registration statement covering the resale of the Warrant Shares has been declared effective by the SEC (provided that the Holder represents in writing to the Company that it has sold or committed in a binding sale agreement or sale order to promptly sell such Warrant Shares pursuant to the terms of the prospectus contained in the registration statement), or if and to the extent this Warrant has been exercised on a "cashless exercise" basis and the provisions of Rule 144 have been satisfied, use its best efforts to deliver Warrant Shares hereunder electronically through the Depository Trust Corporation or another established clearing corporation performing similar functions. If by the fifth (5rd) Trading Day after exercise of this Warrant, the Company fails to deliver the required number of Warrant Shares, the Holder will have the right to rescind the exercise. If by the fifth (5rd) Trading Day after exercise, the Company fails to deliver the required number of Warrant Shares, and if after such fifth Trading Day and prior to the receipt of such Warrant Shares, the Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of Warrant Shares which the Holder anticipated receiving upon such exercise (a "**Buy In**"), then the Company shall (i) pay in cash to the Holder the amount by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue by (B) the closing bid price of the shares of Common Stock on the Exercise Date and (ii) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored or deliver to the Holder the number of shares of Warrant Shares that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy In.

b. This Warrant is exercisable, either in its entirety or, from time to time, for a portion of at least 100,000 Warrant Shares unless this Warrant is at any time exerciseable for fewer than 100,000 Warrant Shares, in which case this Warrant shall only be exerciseable for such remainder. Upon surrender of this Warrant following one or more partial exercises, the Company shall issue or cause to be issued, at its expense, a new Warrant evidencing the right to purchase the remaining number of Warrant Shares.

c. The Company's obligations to issue and deliver Warrant Shares in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the Holder in connection with the issuance of Warrant Shares. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

6. Charges, Taxes and Expenses. Initial issuance and delivery of certificates for shares of Common Stock upon exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax, transfer agent fee or other incidental expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the registration of any certificates for Warrant Shares or Warrants in a name other than that of the Holder. The Holder shall be responsible for all other tax liability that may arise as a result of holding or transferring this Warrant or receiving Warrant Shares upon exercise hereof.

7. Replacement of Warrant. If this Warrant is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation hereof, or in lieu of and substitution for this Warrant, a new Warrant, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable bond or indemnity, if requested. Applicants for a new Warrant under such circumstances shall also comply with such other reasonable regulations and procedures and pay such other reasonable third-party costs as the Company may prescribe.

8. Reservation of Warrant Shares. The Company covenants that it will at all times reserve and keep available out of the aggregate of its authorized but unissued and otherwise unreserved shares of Common Stock, solely for the purpose of enabling it to issue Warrant Shares upon exercise of this Warrant as herein provided, the number of Warrant Shares that are then issuable and deliverable upon the exercise of this entire Warrant, free from preemptive rights or any other contingent purchase rights of persons other than the Holder (after giving effect to the adjustments and restrictions of Section 9, if any). The Company covenants that all Warrant Shares so issuable and deliverable shall, upon issuance and the payment of the applicable Exercise Price in accordance with the terms hereof, be duly and validly authorized, issued and fully paid and nonassessable. The Company will take all such action as may be necessary to assure that such shares of Common Stock may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of any securities exchange or automated quotation system upon which the shares of Common Stock may be listed. The Company will notify its transfer agent for the reservation of shares of Common Stock as required under this provision.

9. Certain Adjustments. The Exercise Price and number of Warrant Shares issuable upon exercise of this Warrant are subject to adjustment from time to time as set forth in this Section 9. In no event shall the Exercise Price and/or the number of Warrant Shares issuable upon exercise of this Warrant be adjusted pursuant to more than one subsection of this Section 9 as a result of any single event or series of related events.

a. Share Dividends and Splits. If after the date hereof, the number of outstanding shares of Common Stock is increased by a share dividend payable in shares of Common Stock or by a split-up of shares of Common Stock or other similar event, then, on the effective date thereof, the number of shares issuable on exercise of this Warrant shall be increased in proportion to such increase in outstanding shares and the then applicable Exercise Price shall be correspondingly decreased.

b. Aggregation of Shares. If after the date hereof, the number of outstanding shares of Common Stock is decreased by a consolidation, combination or reclassification of shares of Common Stock or other similar event, then, upon the effective date of such consolidation, combination or reclassification, the number of shares issuable on exercise of this Warrant shall be decreased in proportion to such decrease in outstanding shares and the then applicable Exercise Price shall be correspondingly increased.

c. Replacement of or Payment for Securities Upon Reorganization, etc. If after the date hereof any capital reorganization or reclassification of the shares of Common Stock of the Company, or consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation or other similar event (each, a "**Fundamental Transaction**") shall be effected, then, as a condition of such Fundamental Transaction, lawful and fair provision shall be made whereby the Holder of this Warrant shall thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in this Warrant and in lieu of the shares of Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented thereby, such shares, securities, cash or other assets as may be issued or payable with respect to or in exchange for the number of outstanding shares of Common Stock equal to the number of such shares of Common Stock immediately theretofore purchasable and receivable upon the exercise of the rights represented by this Warrant, had such Fundamental Transaction not taken place and in such event appropriate provision shall be made with respect to the rights and interests of the Holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Exercise Price and of the number of shares purchasable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be in relation to any shares, securities, or assets thereafter deliverable upon the exercise hereof. The Company shall not effect any such Fundamental Transaction unless prior to the consummation thereof the successor corporation (if other than the Company) resulting from such Fundamental Transaction, or the corporation purchasing such assets in a Fundamental Transaction, shall assume by written instrument executed and delivered to the Holder of this Warrant the obligation to deliver to the Holder of this Warrant such shares, securities, cash or other assets as, in accordance with the foregoing provisions, such Holder may be entitled to purchase.

d. Adjustment of Exercise Price and Number of Warrant Shares Purchasable Upon Issuance of Additional Shares of Common Stock. In the event the Company shall at any time after the date hereof issue shares of Common Stock (the "**Additional Shares of Common Stock**"), other than **Exempt Issuances** (as defined below), while any portion of this Warrant remains outstanding, without consideration or for a consideration per share less than the Exercise Price, then:

i. the Exercise Price shall be reduced, concurrently with such issue, to a price (calculated to the nearest one-hundredth of a cent), determined in accordance with the following formula:

$EP_2 = EP_1 * (A + B) \div (A + C)$.

For purposes of the foregoing formula, the following definitions shall apply:

a. "EP_2" shall mean the Exercise Price in effect immediately after such issue of Additional Shares of Common Stock;

b. "EP_1" shall mean the Exercise Price in effect immediately prior to such issue of Additional Shares of Common Stock;

c. "A" shall mean the number of shares of Common Stock outstanding immediately prior to such issue of Additional Shares of Common Stock (treating for this purpose as outstanding all shares of Common Stock issuable upon exercise, conversion or exchange of Common Stock Equivalents (as defined below) outstanding immediately prior to such issue;

d. "B" shall mean the number of shares of Common Stock that would have been issued if such Additional Shares of Common Stock had been issued at a price per share equal to EP_1 (determined by dividing the aggregate consideration received by the Company in respect of such issue by EP_1); and

e. "C" shall mean the number of such Additional Shares of Common Stock issued in such transaction; and

ii. the number of Warrant Shares purchasable upon the exercise of this Warrant shall be increased, concurrently with the decrease in Exercise Price described above, such that the Aggregate Warrant Equity Percentage (as defined below) of the Warrant shall be no less than the Aggregate Warrant Equity Percentage of the Warrant immediately prior to such decrease in Exercise Price, less only such appropriate adjustments as are required to reflect prior partial exercises of this Warrant.

For purposes hereof, "**Aggregate Warrant Equity Percentage**" at any time means the percentage determined by dividing the number of Warrant Shares purchasable upon exercise of this Warrant at such time by the sum of the number of shares of Common Stock (x) outstanding at such time, (y) issuable upon conversion or exchange of any stock or securities (other than any rights, warrants or options to subscribe for or purchase shares of Common Stock or Convertible Securities) convertible into or exercisable or exchangeable for shares of Common Stock outstanding at such time and (y) issuable upon exercise of Common Stock Equivalents outstanding at such time (including this Warrant).

For purposes hereof, "**Exempt Issuances**" shall mean the issuance of (i) up to 500,000 shares to employees, officers and/or independent directors (but not including any officer, director or employee who immediately prior to such issuance or grant is the beneficial owner of 10% or more of the Company's Common Stock (calculated in accordance with Exchange Act Rule 13d-3)) pursuant to equity incentive plans approved by the Company's stockholders, provided such issuances are approved by the Company's Board of Directors including a majority of the Company's independent directors, (ii) up to 1,000,000 shares of Common Stock as part of mergers or acquisitions approved by the Company's Board of Directors including a majority of the Company's independent directors, and (iii) Settlement Shares (as defined below).

e. Adjustment of Exercise Price and Number of Warrant Shares Purchasable Upon Issuance of Common Stock Equivalents. In the event the Company shall at any time after the date hereof issue any Convertible Security (defined as evidences of indebtedness, ordinary or convertible preferred shares or other securities which are or may be at any time convertible into or exchangeable for shares of Common Stock) or warrant, option or other right to subscribe for or purchase any shares of Common Stock or any Convertible Security (an "**Common Stock Equivalents**"), other than Settlement Shares, while any portion of this Warrant remains outstanding, and the price per share for which Additional Shares of Common Stock may be issuable thereafter pursuant to such Common Stock Equivalents shall be less than the Exercise Price, or if, after any such issuance of Common Stock Equivalents, the price per share for which Additional Shares of Common Stock may be issuable thereafter is amended, and such price as so amended shall be less than the Exercise Price, then the Exercise Price and number of Warrant Shares purchasable upon each such issuance or amendment shall be adjusted as provided in Section 9(d) above, on the basis that Additional Shares of Common Stock issuable pursuant to such Common Stock Equivalents shall be deemed to have been issued (whether or not such Common Stock Equivalents are actually then exercisable, convertible or exchangeable in whole or in part) as of the earlier of (i) the date on which the Company shall enter into a firm contract for the issuance of such Common Stock Equivalents, or (ii) the date of actual issuance of such Common Stock Equivalents. No adjustment of the Exercise Price and number of Warrant Shares purchasable shall be made under this Section 9(e) upon the issuance of any Convertible Security which is issued pursuant to the exercise of any warrants or other subscription or purchase rights therefore, if any adjustment shall previously have been made in the Exercise Price and the number of Warrant Shares purchasable then in effect upon the issuance of such warrants or other rights pursuant to this Section 9(e).

f. Computation of Consideration. The consideration received by the Company shall be deemed to be the following: to the extent that any Additional Shares of Common Stock or any Common Stock Equivalents shall be issued for a cash consideration, the consideration received by the Company therefore; or, if such Additional Shares of Common Stock or Common Stock Equivalents are offered by the Company for subscription, the subscription price; or, if such Additional Shares of Common Stock or Common Stock Equivalents are sold to underwriters or dealers for public offering without a subscription offering, the initial public offering price, in any such case excluding any amounts paid or receivable for accrued interest or accrued dividends and without deduction of any compensation, discounts, commissions, or expenses paid or incurred by the Company for or in connection with the underwriting thereof or otherwise in connection with the issue thereof. The consideration for any Additional Shares of Common Stock issuable pursuant to any Common Stock Equivalents shall be the consideration received by the Company for issuing such Common Stock Equivalents, plus the additional consideration payable to the Company upon the exercise, conversion or exchange of such Common Stock Equivalents. In case of the issuance at any time of any Additional Shares of Common Stock or Common Stock Equivalents in payment or satisfaction of any dividend upon any class of share other than share of Common Stock, the Company shall be deemed to have received for such Additional Shares of Common Stock or Common Stock Equivalents a consideration equal to the amount of such dividend so paid or satisfied. In any case in which the consideration to be received or paid shall be other than cash, the Board of Directors of the Company shall determine in good faith the fair market value of such consideration and promptly notify the Holder of its determination of the fair market value of such consideration prior to payment or accepting receipt thereof. If, within thirty (30) days after receipt of said notice, the Holder shall notify the Board of Directors of the Company in writing of its objection to such determination, a determination of fair market value of such consideration shall be made by an appraiser selected by the Company and approved by the Holder. If the Company and the Holder are unable to agree on the selection of an appraiser, the issue of selection of an appraiser shall be submitted to the American Arbitration Association.

g. Settlement Shares. In the event the Company issues additional shares of Common Stock or Common Stock Equivalents subsequent to the Second Closing Date while any portion of this Warrant remains outstanding in settlement of, or otherwise arising out of, any claim of entitlement to equity of the Company or of any Subsidiary that is based on events or circumstances that arose prior to the Second Closing Date ("**Settlement Shares**"), then the number of Warrant Shares for which this Warrant is exercisable shall then be increased by a number of shares of Common Stock such that the Aggregate Warrant Equity Percentage of the Warrant equals the Aggregate Warrant Equity Percentage of the Warrant immediately prior to the issuance of such Settlement Shares. The remedy provided in this Section 9(g) shall be the sole and exclusive remedy of the Holder with respect to the matters covered hereby.

h. Readjustment of Exercise Price and Number of Warrant Shares Purchasable. Upon the expiration of the right to convert, exchange or exercise any Common Stock Equivalents the issuance of which effected an adjustment in the Exercise Price, if such Common Stock Equivalents shall not have been converted, exercised or exchanged, the number of shares of Common Stock deemed to be issued and outstanding by reason of the fact that they were issuable upon conversion, exchange or exercise of any such Common Stock Equivalents shall no longer be computed as set forth above, and the Exercise Price and number of Warrant Shares purchasable shall forthwith be readjusted and thereafter be the price which it would have been (but reflecting any other adjustments in the Exercise Price and number of Warrant Shares purchasable made pursuant to the provisions of this Section 9 after the issuance of such Common Stock Equivalents) had the adjustment of the Exercise Price and number of Warrant Shares purchasable been made in accordance with the issuance or sale of the number of Additional Shares of Common Stock actually issued upon conversion, exchange or issuance of such Common Stock Equivalents and thereupon only the number of Additional Shares of Common Stock actually so issued shall be deemed to have been issued and only the consideration actually received by the Company shall be deemed to have been received by the Company.

i. Treasury Shares. In making any adjustment in the Exercise Price and number of Warrant Shares purchasable hereinbefore provided in this Section 9, the number of shares of Common Stock at any time outstanding shall not include any shares thereof then directly or indirectly owned or held by or for the account of the Company.

j. Calculations. All calculations under this Section 9 shall be made to the nearest cent or the nearest 1/100th of a share, as applicable. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Company, and the disposition of any such shares shall be considered an issue or sale of shares of Common Stock.

k. Notice of Adjustments. Upon the occurrence of each adjustment pursuant to this Section 9, the Company at its expense will promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment, including a statement of the adjusted Exercise Price and adjusted number or type of Warrant Shares or other securities, cash or property issuable upon exercise of this Warrant (as applicable), describing the transactions giving rise to such adjustments and showing in detail the facts upon which such adjustment is based. Upon written request, the Company will promptly deliver a copy of each such certificate to the Holder and to the Company's transfer agent.

l. Notice of Corporate Events. If the Company (i) declares a dividend or any other distribution of cash, securities or other property in respect of its shares of Common Stock, including without limitation any granting of rights or warrants to subscribe for or purchase any capital stock of the Company or any Subsidiary, (ii) authorizes or approves, enters into any agreement contemplating or solicits stockholder approval for (x) any sale of all or substantially all of its assets in one or a series of related transactions, (y) any tender offer or exchange offer (whether by the Company or another person) pursuant to which holders of shares of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (z) any reclassification of the shares of Common Stock or any compulsory share exchange pursuant to which the shares of Common Stock is effectively converted into or exchanged for other securities, cash or property or (iii) authorizes the voluntary dissolution, liquidation or winding up of the affairs of the Company, then the Company, subject to obtaining an agreement from the Holder to keep such information confidential and not to purchase or sell the Company's securities while in possession of material non-public information (in a form reasonably satisfactory to the Company), shall deliver to the Holder a notice describing the material terms and conditions of such transaction, at least five business days prior to the applicable record or effective date on which a Person would need to hold shares of Common Stock in order to participate in or vote with respect to such transaction, and the Company will take all steps reasonably necessary in order to insure that the Holder is given the practical opportunity to exercise this Warrant prior to such time so as to participate in or vote with respect to such transaction; provided, however, that the failure to deliver such notice or any defect therein shall not affect the validity of the corporate action required to be described in such notice.

m. Rights Upon Distribution of Assets. If the Company shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of shares of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "**Distribution**"), at any time after the issuance of this Warrant, then, in each such case:

i. any Exercise Price in effect immediately prior to the close of business on the record date fixed for the determination of holders of shares of Common Stock entitled to receive the Distribution shall be reduced, effective as of the close of business on such record date, to a price determined by multiplying such Exercise Price by a fraction of which (i) the numerator shall be the closing bid price of the shares of Common Stock on the Trading Day immediately preceding such record date minus the fair market value of the Distribution (as determined in good faith by the Company's Board of Directors) applicable to one share of the Company, and (ii) the denominator shall be the closing bid price of the shares of Common Stock on the Trading Day immediately preceding such record date; and

ii. the number of Warrant Shares shall be increased to a number of shares equal to the number of shares of Common Stock into which this Warrant is exerciseable immediately prior to the close of business on the record date fixed for the determination of holders of shares of Common Stock entitled to receive the Distribution multiplied by the reciprocal of the fraction set forth in the immediately preceding subparagraph (i); provided that in the event that the Distribution is of shares ("**Other Shares of Common Stock**") of a company whose common shares are traded on a national securities exchange or a national automated quotation system, then the Holder may elect to receive a warrant to purchase Other Shares of Common Stock in lieu of an increase in the number of Warrant Shares, the terms of which shall be identical to those of this Warrant, except that such warrant shall be exercisable into the number of shares of Other Shares of Common Stock that would have been payable to the Holder pursuant to the Distribution had the Holder exercised this Warrant immediately prior to such record date and with an aggregate exercise price equal to the product of the amount by which the exercise price of this Warrant was decreased with respect to the Distribution pursuant to the terms of the immediately preceding subparagraph (i) and the number of Warrant Shares calculated in accordance with the first part of this subparagraph (ii).

10. Payment of Exercise Price. The Holder shall pay the Exercise Price in immediately available funds; provided, however, that any time the Holder may satisfy its obligation to pay the Exercise Price through a "cashless exercise," in which event the Company shall issue to the Holder the number of Warrant Shares determined as follows:

$$X = Y [(A-B)/A]$$

Where:

X = the number of Warrant Shares to be issued to the Holder.

Y = the number of Warrant Shares with respect to which this Warrant is being exercised.

A = the average of the applicable closing prices for the five Trading Days immediately prior to (but not including) the Exercise Date, or (if the Common Stock is not listed for trading on a securities exchange or quoted on an over-the-counter quotation service) the price reasonably determined by the Company's Board of Directors to constitute the fair market value of the Common Stock immediately prior to the Exercise Date.

B = the Exercise Price.

For purposes of Rule 144 promulgated under the Securities Act, it is intended, understood and acknowledged that the Warrant Shares issued in a cashless exercise transaction shall be deemed to have been acquired by the Holder, and the holding period for the Warrant Shares shall be deemed to have commenced, on the date this Warrant was originally issued.

11. Fractional Shares. The Company shall not be required to issue or cause to be issued fractional Warrant Shares on the exercise of this Warrant. If any fraction of a Warrant Share would, except for the provisions of this Section, be issuable upon exercise of this Warrant, the number of Warrant Shares to be issued will be rounded down to the nearest whole share and the purchase prices of such fraction of a share shall be paid to the Holder in cash.

12. Notices. Any and all notices or other communications or deliveries hereunder (including without limitation any Exercise Notice) shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile or email at the facsimile number or email address specified in the Purchase Agreement prior to 6:30 p.m. (New York City time) on a Trading Day, (ii) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in the Purchase Agreement on a day that is not a Trading Day or later than 6:30 p.m. (New York City time) on any Trading Day, (iii) the Trading Day following the date of mailing, if sent by nationally recognized overnight courier service or (iv) upon actual receipt by the party to whom such notice is required to be given. The address for such notices or communications shall be as set forth in the Purchase Agreement.

13. Purchase Agreement. The Warrant Shares for which this Warrant is exercisable are entitled to the benefits and subject to the limitations of the Purchase Agreement, which include registration rights for the Warrant Shares.

14. Miscellaneous.

a. Subject to the restrictions on transfer set forth herein, this Warrant and the registration rights set forth in the Purchase Agreement may be assigned by the Holder in denominations of not less than 100,000 Warrant Shares or in its entirety, provided that following such assignment, the further disposition of such Warrant and Warrant Shares by the assignee is restricted under the Securities Act and applicable state securities laws and such transferee agrees in writing to be bound, with respect to the transferred Warrant and Warrant Shares, by the provisions of Articles 10, 11, and 13 of the Purchase Agreement and Section 5.2(b) of the Purchase Agreement. This Warrant may not be assigned by the Company except to a successor in the event of a sale of all or substantially all of the Company's assets or a merger or acquisition of the Company. This Warrant shall be binding on and inure to the benefit of the parties hereto and their respective successors and assigns. Subject to the preceding sentences, nothing in this Warrant shall be construed to give to any Person other than the Company and the Holder any legal or equitable right, remedy or cause of action under this Warrant. This Warrant may be amended only in writing signed by the Company and the Holder and their successors and assigns.

b. The Company will not, by amendment of its governing documents or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be reasonably necessary or appropriate in order to protect the rights of the Holder against impairment. Without limiting the generality of the foregoing, the Company (i) will not increase the par value of any Warrant Shares above the amount payable therefor on such exercise, (ii) will take all such action as may be reasonably necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares on the exercise of this Warrant, and (iii) will not close its stockholder books or records in any manner which interferes with the timely exercise of this Warrant.

c. GOVERNING LAW; VENUE; WAIVER OF JURY TRIAL. ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, ENFORCEMENT AND INTERPRETATION OF THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING REGARD TO ANY APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE GENERAL APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY. EACH PARTY HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITTING IN THE CITY OF NEW YORK, BOROUGH OF MANHATTAN, FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR ARISING OUT OF OR IN CONNECTION HEREWITH OR WITH ANY TRANSACTION CONTEMPLATED HEREBY OR DISCUSSED HEREIN (INCLUDING WITH RESPECT TO THE ENFORCEMENT OF ANY OF THE TRANSACTION DOCUMENTS), AND HEREBY IRREVOCABLY WAIVES, AND AGREES NOT TO ASSERT IN ANY SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF ANY SUCH COURT, THAT SUCH SUIT, ACTION OR PROCEEDING IS IMPROPER. EACH PARTY HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO PROCESS BEING SERVED IN ANY SUCH SUIT, ACTION OR PROCEEDING BY MAILING A COPY THEREOF VIA REGISTERED OR CERTIFIED MAIL OR OVERNIGHT DELIVERY (WITH EVIDENCE OF DELIVERY) TO SUCH PARTY AT THE ADDRESS IN EFFECT FOR NOTICES TO IT UNDER THIS AGREEMENT AND AGREES THAT SUCH SERVICE SHALL CONSTITUTE GOOD AND SUFFICIENT SERVICE OF PROCESS AND NOTICE THEREOF. NOTHING CONTAINED HEREIN SHALL BE DEEMED TO LIMIT IN ANY WAY ANY RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW. THE COMPANY HEREBY WAIVES ALL RIGHTS TO A TRIAL BY JURY.

d. The headings herein are for convenience only, do not constitute a part of this Warrant and shall not be deemed to limit or affect any of the provisions hereof.

e. In case any one or more of the provisions of this Warrant shall be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Warrant shall not in any way be affected or impaired thereby and the parties will attempt in good faith to agree upon a valid and enforceable provision which shall be a commercially reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Warrant.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK,
SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its authorized officer as of the date first indicated above.

LAPIS TECHNOLOGIES, INC.

By: /s/ David Lucatz
Name: David Lucatz
Title: President & Chief Executive Officer

Address:
70 Kinderkamack Road
Emerson, New Jersey 07630

ANNEX A

FORM OF ASSIGNMENT

[To be completed and signed only upon transfer of Warrant]

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____ the right represented by the within Warrant to purchase _____shares of common stock of Lapis Technologies Inc. to which the within Warrant relates and appoints _____ attorney to transfer said right on the books of Lapis Technologies Inc. with full power of substitution in the premises.

Dated: _____,

(Signature must conform in all respects to name of holder as specified on the face of the Warrant)

Address of Transferee

In the presence of:

ANNEX B

FORM OF EXERCISE NOTICE

[To be executed by the Holder to exercise the right to purchase shares of Common Stock under the foregoing Warrant]

TO: LAPIS TECHNOLOGIES INC.

The undersigned is the Holder of Warrant No. _____ (the "**Warrant**") issued by Lapis Technologies Inc., a Delaware corporation (the "**Company**"). Capitalized terms used herein and not otherwise defined have the respective meanings set forth in the Warrant.

The Warrant is currently exercisable to purchase a total of _____ Warrant Shares.

The undersigned Holder hereby exercises its right to purchase _____ Warrant Shares pursuant to the Warrant.

The Holder intends that payment of the Exercise Price shall be made as (check one):

____ "Cash Exercise" under Section 10

____ "Cashless Exercise" under Section 10

If the holder has elected a Cash Exercise, the holder shall pay the sum of $_____ to the Company in accordance with the terms of the Warrant.

Pursuant to this exercise, the Company shall deliver to the holder _____ Warrant Shares in accordance with the terms of the Warrant.

Following this exercise, the Warrant shall be exercisable to purchase a total of _____ Warrant Shares.

Dated: ,

Name of Holder:

(Print)

By:
Name:
Title:

(Signature must conform in all respects to name of holder as specified on the face of the Warrant)

ANNEX C

WARRANT SHARES EXERCISE LOG

DATE	NUMBER OF WARRANT SHARES AVAILABLE TO BE EXERCISED	NUMBER OF WARRANT SHARES EXERCISED	NUMBER OF WARRANT SHARES REMAINING TO BE EXERCISED	INITIALS OF AUTHORIZED REPRESENTATIVE

Exhibit 31.1

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David Lucatz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lapis Technologies, Inc. for the quarter ended September 30, 2012;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5 The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

November 19, 2012

/s/David Lucatz
David Lucatz
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER PURSUANT
TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Tali Dinar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lapis Technologies, Inc. for the quarter ended September 30, 2012;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

November 19, 2012

/s/ Tali Dinar
Tali Dinar
Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Lapis Technologies, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Lucatz, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

November 19, 2012

/s/ David Lucatz
David Lucatz
Chief Executive Officer (Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Lapis Technologies, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tali Dinar, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

November 19, 2012

/s/ Tali Dinar
Tali Dinar
Chief Financial Officer (Principal Financial Officer)