

LAPIS TECHNOLOGIES INC  
Form 10QSB  
November 14, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-QSB**

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended September 30, 2006**

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

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 333-100979**

**LAPIS TECHNOLOGIES, INC.**

(Name of Small Business Issuer in Its Charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**27-0016420**

(IRS Employer  
Identification No.)

19 W. 34<sup>th</sup> Street, Suite 1008  
New York, New York 10001  
(Address of Principal Executive Offices)

(212) 937-3580

(Registrant's telephone number, including area code)

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

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

Yes  No

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 9, 2006, the Company had 6,483,000 shares of its par value \$0.001 common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one):

Yes  No

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**LAPIS TECHNOLOGIES, INC.**

Quarterly Report on Form 10-QSB for the  
Quarterly Period Ending September 30, 2006

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****CONSOLIDATED BALANCE SHEET  
(In Thousands, Except Share Amounts)****ASSETS**

|   | September 30,<br>2006 |
|---|-----------------------|
| Current Assets:                           |                       |
| Cash and cash equivalents                 | \$ 109                |
| Accounts receivable                       | 3,193                 |
| Inventories                               | 2,731                 |
| Prepaid expenses and other current assets | 569                   |
| Due from affiliates                       | 44                    |
| <b>Total current assets</b>               | <b>6,646</b>          |
| Property and equipment, net               | 308                   |
| Deferred income taxes                     | 17                    |
|   | \$ 6,971              |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|                                       |              |
|---------------------------------------|--------------|
| Current Liabilities:                  |              |
| Bank line of credit                   | \$ 1,180     |
| Short term bank loans                 | 1,957        |
| Current portion of term loans         | 179          |
| Accounts payable and accrued expenses | 2,034        |
| Due to stockholder                    | 10           |
| Income taxes payable                  | -            |
| <b>Total current liabilities</b>      | <b>5,360</b> |
| Term loans, net of current portion    | 445          |
| Severance payable                     | 62           |
| <b>Total liabilities</b>              | <b>5,867</b> |
| Commitments and contingencies         |              |
| Minority interest                     | 282          |
| Stockholders' Equity:                 |              |

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|  |          |
|--|----------|
| Preferred stock; \$.001 par value, 5,000,000 shares authorized, none issued                            | -        |
| Common stock; \$.001 par value, 100,000,000 shares authorized, 5,483,000 shares issued and outstanding | 6        |
| Additional paid-in capital   | 78       |
| Accumulated other comprehensive loss   | (53)     |
| Retained Earnings  | 791      |
| Total stockholders' equity   | 822      |
|  | \$ 6,971 |

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

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

|  | Nine Months Ended<br>September 30, |           | Three Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|-------------------------------------|-----------|
|  | 2006                               | 2005      | 2006                                | 2005      |
| Sales  | \$ 5,028                           | \$ 4,571  | \$ 1,401                            | \$ 1,040  |
| Cost of sales  | 3,596                              | 2,906     | 1,162                               | 813       |
| Gross profit   | 1,432                              | 1,665     | 239                                 | 227       |
| Operating expenses:  |                                    |           |                                     |           |
| Research and development expenses                              | 232                                | 203       | 118                                 | 89        |
| Selling expenses   | 73                                 | 67        | 8                                   | 38        |
| General and administrative                                     | 905                                | 914       | 342                                 | 231       |
| Total operating expenses                                       | 1,210                              | 1,184     | 468                                 | 358       |
| Income from operations   | 222                                | 481       | (229)                               | (131)     |
| Other income (expense):  |                                    |           |                                     |           |
| Other income   | 6                                  | -         | (3)                                 | -         |
| Interest expense, net  | (267)                              | (182)     | (92)                                | (63)      |
| Income before provision for income taxes and minority interest | (39)                               | 299       | (324)                               | (194)     |
| Provision for income taxes                                     | 136                                | 66        | 53                                  | (1)       |
| Minority interest  | 24                                 | (55)      | 52                                  | 110       |
| Net income   | (151)                              | 178       | (325)                               | (83)      |
| Other comprehensive (loss) income, net of taxes                |                                    |           |                                     |           |
| Foreign translation (loss) gain                                | 21                                 | (72)      | (38)                                | -         |
| Comprehensive (loss) income                                    | \$ (130)                           | \$ 106    | \$ (363)                            | \$ (83)   |
| Basic net loss per share                                       | \$ (0.02)                          | \$ 0.03   | \$ (0.05)                           | \$ (0.02) |
| Basic weighted average common shares outstanding               | 6,483,000                          | 5,706,443 | 6,483,000                           | 5,483,000 |

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

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

|   | Nine Months Ended<br>September 30, |         |
|---|------------------------------------|---------|
|   | 2006                               | 2005    |
| Cash flows from operating activities:   |                                    |         |
| Net income  | \$ (151)                           | \$ 178  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                    |         |
| Depreciation and amortization   | 69                                 | 120     |
| Minority interest   | (10)                               | 23      |
| Gain on sale of property and equipment  | (10)                               | -       |
| Forgiveness of indebtedness   | -                                  | (115)   |
| Deferred income tax   | (1)                                | 2       |
| Change in operating assets and liabilities:   |                                    |         |
| Accounts receivable   | 519                                | (321)   |
| Inventories   | (296)                              | (191)   |
| Prepaid expenses and other current assets   | (193)                              | (293)   |
| Accounts payable and accrued expenses   | (333)                              | (142)   |
| Income tax payable  | -                                  | 53      |
| Customer deposits   | -                                  | 74      |
| Severance payable   | 4                                  | -       |
| Net cash provided by (used in) operating activities   | (402)                              | (612)   |
| Cash flows from investing activities:   |                                    |         |
| Proceeds from the sale of property & equipment  | 68                                 | -       |
| Purchase of property and equipment  | (123)                              | (42)    |
| Increase in due from stockholder  | 4                                  | 348     |
| (Increase) decrease in due from affiliates  | 36                                 | 1       |
| Net cash used in investing activities   | (15)                               | 307     |
| Cash flows from financing activities:   |                                    |         |
| Increase in bank line of credit, net  | (129)                              | 575     |
| Proceeds from long term debt  | 3,365                              | 2,306   |
| Repayment of long-term debt   | (2,791)                            | (2,522) |
| Net cash (used in) provided by financing activities   | 445                                | 359     |
| Effects of exchange rates on cash   | 4                                  | (72)    |
| Increase (decrease) in cash   | 31                                 | (18)    |
| Cash, beginning of period   | 78                                 | 124     |
| Cash, end of period   | \$ 109                             | \$ 106  |

Supplemental disclosure of cash flow information:

Cash paid during the period for:

|              |    |     |    |     |
|--------------|----|-----|----|-----|
| Interest     | \$ | 266 | \$ | 182 |
| Income taxes | \$ | 90  | \$ | 59  |

Supplemental information on non-cash activities:

|   |    |   |    |       |
|---|----|---|----|-------|
| Purchase of additional interest in subsidiary for stock | \$ | - | \$ | 1,050 |
|---|----|---|----|-------|

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

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Amounts)  
SEPTEMBER 30, 2006

NOTE 1 - DESCRIPTION OF BUSINESS

Lapis Technologies, Inc. (the "Company") was incorporated in the State of Delaware on January 31, 2002. The Company was originally named Enertec Electronics, Inc. and on April 23, 2002 changed its name to Opal Technologies, Inc. which changed its name to Lapis Technologies, Inc. on October 3, 2002. The Company's operations are conducted through its wholly-owned Israeli Subsidiary, Enertec Electronics Ltd. ("Enertec") and its majority owned Israeli subsidiary Enertec Systems 2001 LTD ("Systems"). Enertec is engaged in the manufacturing, distribution and marketing of electronic components and products relating to power supplies, converters and related power conversion products, automatic test equipment, simulators and various military and airborne systems, within the State of Israel.

NOTE 2 - BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying unaudited consolidated financial statements and related footnotes have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information read the financial statements and footnotes thereto included in the Company's Annual Report to be filed in accordance with the rules and regulations of the Securities and Exchange Commission on Form 10-KSB for the year ended December 31, 2005. The results of operations for the nine months ended September 30, 2006 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2006.

The accompanying financial statements include the accounts of the Company and their ownership interest in its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stock based compensation

The Company has adopted Statement of Financial Accounting Statement ("SFAS") No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"). SFAS 148 amends SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Company has adopted the fair value method of accounting as discussed in SFAS 123 as of January 1, 2003. Accordingly, stock options, when issued, will be recorded in accordance with the terms of that document.

Use of Estimates

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



LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Amounts)  
SEPTEMBER 30, 2006

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent Accounting Pronouncements

In December 2004, FASB issued Statement No. 123 (revised 2004), "Share-Based Payment" (SFAS 123 (revised 2004), effective for public entities that file as small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. This Statement is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS 123 (revised 2004) eliminates the alternative to use Opinion No. 25's intrinsic value method of accounting that was provided in Statement 123 as originally issued. Under Opinion 25, issuing stock options to employees generally resulted in recognition of no compensation cost. This Statement requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). Recognition of that compensation cost helps users of financial statements to better understand the economic transactions affecting an entity and to make better resource allocation decisions. The Company is required to adopt Statement 123 (revised 2004) as of January 1, 2006, and does not expect this statement to have a material effect on its results of operations.

In May 2005, FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a Replacement of APB Opinion No. 20 (Accounting Changes) and FASB No. 3 (Reporting Accounting Changes in Interim Financial Statements)," that changes requirements for the accounting for and reporting of a change in accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable.

Statement 154 is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005 (calendar year 2006). Early adoption is permitted.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Amounts)  
SEPTEMBER 30, 2006

NOTE 4 - PROVISION FOR INCOME TAXES -

The income tax expense for the nine months ended September 30, 2006 is based upon the income tax laws of Israel. Israeli tax law does not allow a parent company to offset its' income with losses from any of its' subsidiaries.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion contains forward-looking statements that are subject to significant risks and uncertainties about us, our current and planned projects, our current and proposed marketing and sales, and our projected results of operations. There are several important factors that could cause actual results to differ materially from historical results and percentages and results anticipated by the forward-looking statements. The Company has sought to identify the most significant risks to its business, but cannot predict whether or to what extent any of such risks may be realized nor can there be any assurance that the Company has identified all possible risks that might arise. Investors should carefully consider all of such risks before making an investment decision with respect to the Company's stock. The following discussion and analysis should be read in conjunction with the financial statements of the Company and notes thereto. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment from our Management.

### **Overview**

We were formed in Delaware on January 31, 2002 under the name Enertec Electronics, Inc. and have filed two certificates of amendment changing our name to Opal Technologies, Inc. and then to Lapis Technologies, Inc. We conduct operations in Israel through our wholly owned subsidiary, Enertec Electronics Limited ("Enertec Electronics"), an Israeli corporation formed on December 31, 1991, and Enertec Systems 2001 LTD ("Enertec Systems"), an Israeli corporation formed on August 28, 2001, of which we have a 73% equity interest. Enertec Electronics is a manufacturer and distributor of electronic components and products relating to power supplies, converters and related power conversion products, automatic test equipment (ATE), simulators and various military and airborne systems. Enertec Electronics maintains two divisions, the Systems Division and the Electronics Division. The Systems Division designs, develops and manufactures test systems for electronics manufacturers in accordance with their specifications. The Electronics Division markets and distributes the test systems, power supplies and other electronic components manufactured by us, and by other manufacturers who engage us to distribute their products.

### **Liquidity and Capital Resources**

Our cash balance at September 30, 2006 has increased compared to the cash balance at September 30, 2005, with cash and cash equivalents of \$109,000 as of September 30, 2006 compared to \$106,000 at September 30, 2005. Total current assets at September 30, 2006 \$6,646,000 as compared to \$ 6,088,000 at September 30, 2005. The increase in current assets is mainly due to an increase in accounts receivable and an increase in inventories.

Our accounts receivable at September 30, 2006 was \$3,193,000, as compared to \$2,865,000 at September 30, 2005.

This change in accounts receivable is primarily due to higher sales during the first nine months of 2006 as compared to the same period in 2005 and the decrease in USD/shekel exchange rate since the receivables are in shekels .

As of September 30, 2006 our working capital was \$ 1,286,000 as compared to \$1,347,000 at September 30, 2005. The decrease in the working capital is due to a larger increase in in accounts payable and total bank debt than the increase in receivables and inventories as a result for the current quarter operating loss.

The current portion of our short-term loans at September 30, 2006 totaled \$ 179,000 compared to \$143,000 at September 30, 2005. Our total short-term loans amounted to \$1,957,000 for the nine-month period ended September 30, 2006 as compared to 1,724,000 at September 30, 2005.

As of September 30, 2006, our total bank debt was \$ 3,761,000 as opposed to \$3,272,000 at the end of September 30, 2005. These funds were borrowed as follows:

\$ 2,136,000 which includes the current portion of long term debt, as various short term bank loans due through 2007, \$445,000 of long-term debt due through March 2010 and \$1,180,000 borrowed using our bank lines of credit. As a result, we increased the amount borrowed for the nine months ended September 30, 2006 by \$489,000 from \$3,272,000. The increase in bank debt is mainly due to the increase in account receivables, decrease in USD/shekel exchange rate since the loans are in shekels and an increase in inventories.

There are no other lines of credit available to us to refinance our short-term bank loans. Additionally, we currently do not have any other sources of financing available to us for refinancing our short-term loans. As of September 30, 2006, we are current with all of our bank debt and compliant with all the terms of our bank debt.

### **Financing Needs**

Although we currently do not have any material commitments for capital expenditures, we expect our capital requirements to increase over the next several years as we continue to develop and test our suite of products, increase marketing and administration infrastructure, and embark on developing in-house business capabilities and facilities. Our future liquidity and capital funding requirements will depend on numerous factors, including, but not limited to, the levels and costs of our research and development initiatives, the cost of hiring and training additional sales and marketing personnel to promote our products and the cost and timing of the expansion of our marketing efforts.

Based on our current business plan, we anticipate that our existing cash balances and cash generated from future sales will be sufficient to permit us to conduct our operations and to carry out our contemplated business plans for the next twelve months. However, management may undertake additional debt or equity financings to better enable Lapis to grow and meet its future operating and capital requirements. Currently, the only external sources of liquidity are our banks, and we may seek additional financing from them or through securities offerings to expand our operations, using new capital to develop new products, enhance existing products or respond to competitive pressures.

### **Results of Operations**

#### **Three and Nine Months Ended September 30, 2006 Compared to Three and Nine Months Ended September 30, 2005**

Revenues for the three and nine months ended September 30, 2006 were \$1,401,000 and \$5,028,000 respectively, as compared to \$1,040,000 and \$4,571,000 for the three and nine months ended September 30, 2005, respectively. This represents an increase of \$361,000, or 34.7% for the quarter ended September 30, 2006 and an increase of \$457,000, or 10%, for the nine months ended September 30, 2006, when compared to the same periods of 2005.

The increase of 10% in revenues for the nine months ended September 2006 versus the same period for the prior year is mainly a result of :

1. First prototypes of several new products developed during previous quarters started to be delivered to the customers during the third quarter of 2006. The price of a prototype is usually higher than the price of a mass produced unit, however the cost of the prototype include the high costs of development and tooling, resulting in a low profit margin.

2. The revenues for the nine months ended Sept 2006 include a grant of approximately \$100,000 from the government of Israel to partially cover the cost of salaries of the employees who have not been able to work as a consequence of the closure during the war in the North of Israel .Our subsidiaries are located in Carmiel and Haifa Bay area, which have been under heavy missiles attacks and were closed during most of July-Aug 2006.

The increase of \$361,00 (34.7% ) in revenues for the three-months ended September 30, 2006 as compared to the same period of 2005 is mainly a result of:

1. Low revenues during the three-months ended Sept 2005 due to our focusing during this period on several new projects with long lead times and significant design and tooling periods.

2. The revenues for the three months ended Sept 2006 include a grant of approximately \$100,000 from the government to partially cover the cost of the salaries of the employees who have not been able to work as a consequence of the closure during the war in the North of Israel.

Gross profit totaled approximately \$239,000 for the quarter ended September 30, 2006 and \$1,432,000 for the nine months September 30, 2006. For the three and nine months ended September 30, 2005, gross profit totaled \$227,000 and \$1,665,000, respectively. Comparing the three-month period ended September 30, 2006 to the same period of 2005, gross profit increased by approximately \$ 12,000, or 5.3 %. For the nine-month period ended September 30, 2006, gross profit decreased approximately \$233,000, or 14.0 %, compared to the same period of 2005. The decrease in gross profits for the nine month period as compared to the same period of 2005 is primarily due to decrease in gross profit during the previous two quarters in 2006 as a result of the focus during this period on several new technology projects with higher tooling cost, resulting in lower profit margins.

Gross profit as a percentage of sales was 17.1 % for the three-month period ended September 30, 2006 as compared to 21.8% for the same period of 2005 and for the nine-month period ended September 30, 2006, was 28.5% as compared to 36.4% for the same period of 2005.

The decrease in gross profit as a percentage of sales is a result of:

1. Introduction of new products during the last quarters and the delivery of first prototypes. The cost of a prototype includes high costs of development and tooling, resulting in a low profit margin.
2. Strong competition in the commercial field, forcing us to offer lower prices by cutting the profit margins.
3. The revenues for the three months ended Sept 2006 include a grant of approximately \$100,000 from the government to partially cover the cost of the salaries of the employees who have not been able to work as a consequence of the closure during the war in the North of Israel.

Total operating expenses are comprised of selling, general and administrative expenses and R&D. For the three months and nine months ended September 30, 2006, operating expenses totaled \$468,000 and \$ 1,210,000, respectively. This was an increase of \$ 110,000 (30.7 %) and \$26,000 (2.2%) when compared to the three and nine-month periods ended September 30, 2005. The increase in operating expenses for the nine-month period as compared to the same period of 2005 is attributable mainly to the increase in R&D expenses of \$29,000.

The increase in operating expenses for the three month period as compared to the same period of 2005 is attributable mainly to the increase in R&D expenses of \$29,000 offset by decrease in cost of sales during the three month period and an increase of about \$110,000 in the G&A expenses mainly due to the increase in the cost of professional services.

Our net income was a loss of \$325,000 in the three months ended September 30, 2006 and \$151,000 in the nine months ended September 30, 2006. This compares to net loss of \$83,000 in the three months ended September 30, 2005 and a net income of \$178,000 in the nine months ended September 30, 2005.

This represents an increase in the net loss by \$242,000, or 292 %, comparing the three months ended September 30, 2006 to the three months ended September 30, 2005, and a decrease in net income by \$ 329,000, or (185) %, comparing the nine months ended September 30, 2006 to the nine months ended September 30, 2005.

The decrease in the net income in the three-month period ended September 30, 2006 was mainly due to an increase of \$ 110,000 in operating cost, an increase of \$29,000 in interest expenses, an increase of 54,000 in provision for tax and an increase of \$58,000 in the minority interest.



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For the nine month period ending September 30th 2006, the decrease in the net income is mainly due to a decrease of \$233,000 in gross profit, an increase of \$85,000 in interest expenses, an increase of \$26,000 in operating expenses, an increase of \$70,000 in provision for tax, partly offset by a decrease of \$79,000 in the minority interest.

As of September 30, 2006, we had 2 customers that accounted for approximately 45% of the accounts receivable. For the nine months ended September 30, 2006, approximately 43% of our sales were to 2 customers.

### **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, 2006 were \$118,000 and \$232,000, respectively. Research and development costs for the three and nine months ended September 30, 2005 were \$89,000 and \$203,000, respectively.

### **Off-Balance Sheet Arrangements**

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

### **Critical Accounting Policies**

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

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

Revenue relating to service is recognized on the straight-line basis over the life of the agreement, generally one year. For the three and nine months ended September 30, 2006 revenue relating to service contracts was less than one percent of net sales.

*Financial Instruments* - The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, bank line of credit, short term bank loans and accounts payable and accrued expenses approximate fair value at September 30, 2006 because of the relatively short maturity of the instruments. The fair value of due from stockholder is not practical to estimate without incurring excessive cost and is carried at cost at September 30, 2006. The carrying value of the long-term debt approximate fair value at September 30, 2006 based upon debt terms available for companies under similar terms.

*Foreign Currency Translation* - Lapis Technologies, Inc. has one wholly owned subsidiary, Enertec Electronics Limited, an Israeli corporation, and one majority owned subsidiary, Enertec Systems 2001 Ltd., an Israeli corporation. The assets and liabilities of the foreign subsidiaries are translated at current exchange rates and related revenues and expenses at average exchange rates in effect during the periods reported. Resulting translation adjustments, if material, are recorded as a separate component of accumulated other comprehensive income or loss.

### ITEM 3. CONTROLS AND PROCEDURES

*(a) Evaluation of disclosure controls and procedures.*

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of September 30, 2006. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

*(b) Changes in internal control over financial reporting.*

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-QSB that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Submission of Matters to a Vote of Security Holders.**

None.

### **Item 5. Other Information.**

None.

### **Item 6. Exhibits**

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

**SIGNATURES**

In accordance with requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**LAPIS TECHNOLOGIES, INC.**

Date: November 14, 2006

By: /s/ HARRY MUND  
Harry Mund  
Chief Executive Officer (Principal Executive Officer),  
President and Chairman of the Board

Date: November 14, 2006

By: /s/ MIRON MARKOVITZ  
Miron Markovitz  
Chief Financial Officer (Principal Financial Officer) Chief  
Accounting Officer (Principal Accounting Officer) and  
Director