

LAPIS TECHNOLOGIES INC
Form 10QSB
August 21, 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 JUNE 30, 2006
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER _____

LAPIS TECHNOLOGIES, INC.

(Name of small business issuer in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

27-0016420

(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 10, 2006, the issuer had 6,483,000 outstanding shares of Common Stock.

Transitional Small Business Disclosure Format (check one): Yes No

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements.**

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

ASSETS

| | June 30, 2006 |
|---|------------------|
| Current Assets: | |
| Cash and cash equivalents | \$ 2 |
| Accounts receivable | 3,413 |
| Inventories | 2,648 |
| Prepaid expenses and other current assets | 613 |
| Total current assets | 6,676 |
| Property and equipment, net | 313 |
| Deferred income taxes | 16 |
| | \$ 7,005 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | |
|---|--------------|
| Current Liabilities: | |
| Bank line of credit | \$ 1,023 |
| Short term bank loans | 1,751 |
| Current portion of term loans | 292 |
| Accounts payable and accrued expenses | 704 |
| Due to stockholder | 9 |
| Due to affiliates | 1,004 |
| Income taxes payable | - |
| Total current liabilities | 4,783 |
| Term loans, net of current portion | 681 |
| Severance payable | 60 |
| Total liabilities | 5,524 |
| Commitments and contingencies | |
| Minority interest | 359 |
| Stockholders' Equity: | |
| Preferred stock; \$.001 par value, 5,000,000 shares authorized, none issued | - |
| Common stock; \$.001 par value, 100,000,000 shares authorized, 6,483,000 | |

| | |
|--------------------------------------|----------|
| shares issued and outstanding | 6 |
| Additional paid-in capital | 78 |
| Accumulated other comprehensive loss | (78) |
| Retained Earnings | 1,116 |
| Total stockholders' equity | 1,122 |
| | \$ 7,005 |

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

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|--|------------------------------|-----------|--------------------------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Sales | \$ 3,627 | \$ 3,531 | \$ 1,633 | 1,866 |
| Cost of sales | 2,434 | 2,093 | 1,040 | 886 |
| Gross profit | 1,193 | 1,438 | 593 | 980 |
| Operating expenses: | | | | |
| Research and development expenses | 114 | 114 | 44 | 80 |
| Selling expenses | 65 | 29 | 38 | 6 |
| General and administrative | 563 | 683 | 284 | 399 |
| Total operating expenses | 742 | 826 | 366 | 485 |
| Income from operations | 451 | 612 | 227 | 495 |
| Other income (expense): | | | | |
| Other income | 9 | - | 9 | - |
| Interest expense, net | (175) | (119) | (88) | (58) |
| Income before provision for income taxes and minority interest | 285 | 493 | 148 | 437 |
| Provision for income taxes | 83 | 67 | 27 | 11 |
| Minority interest | (28) | (165) | (10) | (215) |
| Net income | 174 | 261 | 111 | 211 |
| Other comprehensive (loss) income, net of taxes | | | | |
| Foreign translation (loss) gain | 59 | (72) | 75 | (61) |
| Comprehensive (loss) income | \$ 233 | \$ 189 | \$ 186 | \$ 150 |
| Basic net loss per share | \$ 0.03 | \$ 0.05 | \$ 0.02 | \$ 0.04 |
| Basic weighted average common shares outstanding | 6,483,000 | 5,483,000 | 6,483,000 | 5,483,000 |

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

| | 2006 | Six Months Ended June 30, | 2005 |
|---|------|------------------------------|----------|
| Cash flows from operating activities: | | | |
| Net income | \$ | 174 | \$ 261 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | | 39 | 91 |
| Minority interest | | 37 | 129 |
| Gain on sale of property and equipment | | (9) | - |
| Deferred income tax | | - | 1 |
| Change in operating assets and liabilities: | | | |
| Accounts receivable | | 299 | (336) |
| Inventories | | (213) | 11 |
| Prepaid expenses and other current assets | | (237) | (261) |
| Accounts payable and accrued expenses | | (613) | (210) |
| Income tax payable | | - | 54 |
| Customer deposits | | - | 71 |
| Severance payable | | 2 | - |
| Net cash provided by (used in) operating activities | | (521) | (189) |
| Cash flows from investing activities: | | | |
| Proceeds from the sale of property & equipment | | 70 | - |
| Purchase of property and equipment | | (101) | (42) |
| Increase in due from stockholder | | 3 | 348 |
| (Increase) decrease in due from affiliates | | 34 | 1 |
| Net cash used in investing activities | | 6 | 307 |
| Cash flows from financing activities: | | | |
| Increase in bank line of credit, net | | (286) | 223 |
| Proceeds from long term debt | | 2,338 | 1,881 |
| Repayment of long-term debt | | (1,655) | (2,002) |
| Net cash (used in) provided by financing activities | | 397 | 102 |
| Effects of exchange rates on cash | | | 42 (72) |
| Increase (decrease) in cash | | | (76) 148 |
| Cash, beginning of period | | | 78 124 |
| Cash, end of period | | \$ 2 | \$ 272 |
| Supplemental disclosure of cash flow information: | | | |

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Cash paid during the period for:

| | | | | |
|--------------|----|---------|----|---|
| Interest | \$ | 175,000 | \$ | - |
| Income taxes | \$ | 80,000 | \$ | - |

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Amounts)
JUNE 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 six months ended June 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.

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

NOTE 4 - PROVISION FOR INCOME TAXES -

The income tax expense for the six months ended June 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 or Plan of Operation.

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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., 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 Registration Statement on Form 10-SB filed with the Securities and Exchange Commission on March 26, 2004.

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

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 June 30, 2006 has decreased compared to the cash balance at June 30, 2005, with cash and cash equivalents of \$2,000 as of June 30, 2006 compared to \$272,000 at June 30, 2005. Total current assets at June 30, 2006 were \$6,676,000 as compared to \$ 6,053,000 at June 30, 2005. The increase in current assets is mainly due to an increase in accounts receivable.

Our accounts receivable at June 30, 2006 was \$3,413,000, as compared to \$2,880,000 at June 30, 2005. This change in accounts receivable is primarily due to several orders with payment terms 30 days longer than usual delivered during the first six months of 2006 as compared to the same period in 2005.

As of June 30, 2006 our working capital was \$ 1,893,000 as compared to \$1,545,000 at June 30, 2005. The increase in the working capital is also due primarily to an increase in accounts receivable.

The current portion of our short-term loans at June 30, 2006 totaled \$292,000 compared to \$144,000 at June 30, 2005. Our total short-term loans amounted to \$1,751,000 for the six-month period ended June 30, 2006 as compared to

1,894,000 at June 30, 2005.

As of June 30, 2006, our total bank debt was \$ 3,747,000 as opposed to \$3,129,000 at the end of June 30, 2005. These funds were borrowed as follows:

\$ 2,043,000 which includes the current portion of long term debt, as various short term bank loans due through 2007, \$681,000 of long-term debt due through March 2010 and \$1,023,000 borrowed using our bank lines of credit. As a result, we increased the amount borrowed for the six months ended June 30, 2006 by \$618,000 from \$3,129,000. 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.

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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 June 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 Six Months Ended June 30, 2006 Compared to Three and Six Months Ended June 30, 2005

Revenues for the three and six months ended June 30, 2006 were \$1,633,000 and \$3,627,000 respectively, as compared to \$1,866,000 and \$3,531,000 for the three and six months ended June 30, 2005, respectively. This represents a decrease of \$233,000, or 12.4% for the quarter ended June 30, 2006 and an increase of \$96,000, or 2.7%, for the six months ended June 30, 2006, when compared to the same periods of 2005. The increase of 2.7% in revenues for the six months ended June 2006 versus the same period for the prior year is mainly a result of the increase in the revenues for the first quarter of 2006 as compared to the first quarter of 2005, partly offset by the decrease in revenues in the 2nd quarter of 2006 as compared to the 2nd quarter of 2005. The main reason for the increase in revenues in the first quarter of 2006 is due to the delivery of several orders for new products introduced during 2005. The decrease of 12.4% in revenues for the three-months ended June 30, 2006 as compared to the same period of 2005 is mainly due to several new projects with long lead times and significant design and tooling periods. The delivery of these orders are scheduled for the last quarter of 2006 and following first quarter of 2007.

Gross profit totaled approximately \$593,000 for the quarter ended June 30, 2006 and \$1,193,000 for the six months June 30, 2006. For the three and six months ended June 30, 2005, gross profit totaled \$980,000 and \$1,438,000, respectively. Comparing the three-month period ended June 30, 2006 to the same period of 2005, gross profit decreased by approximately \$ 387,000, or 39.5%. For the six-month period ended June 30, 2006, gross profit decreased approximately \$245,000, or 17.0 %, compared to the same period of 2005. The decrease in gross profits is primarily due to the focus during the last quarter on several new technology projects with higher tooling cost, resulting in lower profit margins. In addition, during the second quarter of 2006 we had lower revenues than for the same period of 2005, due mainly to work in process for the several large orders utilizing new technology for delivery during the following quarters.

Gross profit as a percentage of sales was 36.3 % for the three-month period ended June 30, 2006 as compared to 52.5% for the same period of 2005 and for the six-month period ended June 30, 2006, was 32.9% as compared to 40.7% for the same period of 2005.

The decrease in gross profit as a percentage of sales is a result of lower introductory prices and higher tooling costs for the new products introduced during the last quarters.

Total operating expenses are comprised of selling, general and administrative expenses and R&D. Historically R&D costs were included in the cost of sales. The 2005 six month financials have been re-classified accordingly to allow comparison. For the three months and six months ended June 30, 2006, operating expenses totaled \$366,000 and \$742,000, respectively. This was a decrease of \$119,000 (24.5%) and \$84,000 (10.2%) when compared to the three and six-month periods ended June 30, 2005. The decrease in operating expenses for the six-month period as compared to the same period of 2005 is attributable mainly to the decrease in G&A expenses of \$120,000, partly offset by an increase of \$36,000 in selling expenses as a result of our efforts to introduce new product lines in the marketplace.

The G&A expenses decrease is mainly due to the decrease in the cost of professional services and the allocation of more resources from G&A to selling effort.

Our net income was \$111,000 in the three months ended June 30, 2006 and \$174,000 in the six months ended June 30, 2006. This compares to net income of \$211,000 in the three months ended June 30, 2005 and \$261,000 in the six months ended June 30, 2005. The decrease in net income by \$100,000, or 47%, comparing the three months ended June 30, 2006 to the three months ended June 30, 2005, and the decrease in net income by \$87,000, or 33%, comparing the six months ended June 30, 2006 to the six months ended June 30, 2005.

The decrease in the net income in the three-month period ended June 30, 2006 was mainly due to a decrease of \$387,000 in the gross profit and an increase of \$30,000 in interest expenses, partly offset by a decrease of \$119,000 in operating cost and a decrease of \$205,000 in the minority interest.

For the six month period ending June 30, 2006, the decrease in the net income is mainly due to a decrease of \$245,000 in gross profit and an increase of \$56,000 in interest expenses, partly offset by a decrease in operating expenses of \$84,000 and a decrease of \$137,000 in the minority interest.

As of June 30, 2006, we had 2 customers that accounted for approximately 52.3% of the accounts receivable. For the six months ended June 30, 2006, approximately 50.5% of our sales were to 2 customers.

Research and Development Costs

Research and development costs are part of operating expenses. Historically R&D costs were included in the cost of sales. The 2005 six month financials have been re-classified accordingly to allow comparison. Research and development costs for the three and six months ended June 30, 2006 were \$44,000 and \$114,000, respectively. Research and development costs for the three and six months ended June 30, 2005 were \$80,000 and \$114,000, 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.

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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 six months ended June 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 June 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 June 30, 2006. The carrying value of the long-term debt approximate fair value at June 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.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (1) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure; and (2) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. There was no change to our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

In our 10-KSB for the fiscal year ended December 31, 2005, which was filed with the Securities and Exchange Commission on March 31, 2006, we reported that On April 16, 2002, Orkit Communications (the "Plaintiff") brought an action in the Tel Aviv District Court against Gaia Converter, a French company and Alcyon Production Systems, also a French company and a subcontractor of Gaia Converter, seeking \$1,627,966, alleging that the DC converters supplied to it by Gaia Converter were defective and caused Orkit to replace the converters at a substantial financial expense. Orkit obtained default judgments against Gaia Converter, and Alcyon Production Systems. Enertec Electronics was joined in the action as a local Israeli distributor of the Gaia Converter products. The Plaintiff has withdrawn its action against Enertec.

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

Not applicable.

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Item 3. Defaults Upon Senior Securities.

Not applicable.

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

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibit

Number

Description

| | |
|------|--|
| 31.1 | Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act. |
| 31.2 | Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act. |
| 32.1 | Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code. |
| 32.2 | Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code. |

SIGNATURES

In accordance with the 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: August 17, 2006

By: /s/ Harry Mund

Harry Mund
Chief Executive Officer, President
and Chairman of the Board

Date: August 17, 2006

By: /s/ Miron Markovitz

Miron Markovitz
Chief Financial Officer, Chief Accounting
Officer and Director