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LAPIS TECHNOLOGIES INC
Form 10QSB
November 14, 2005

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, 2005

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

27-0016420

(State or other jurisdiction of
incorporation or organization)

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

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

(Address of principal executive offices)

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

Indicate by check mark whether the registrant is a shell company (as
defined in Rule 12b-2 of the Exchange Act). 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 November 11, 2005, the
issuer had 6,483,000 outstanding shares of Common Stock, \$.001 par value.

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 | September 30, 2005 |
|---|--------|-----------------------|
| | | ----- |
| Current Assets: | | |
| Cash and cash equivalents | | \$ 106 |
| Accounts receivable | | 2,865 |
| Inventories | | 2,465 |
| Prepaid expenses and other current assets | | 652 |
| Due from stockholder | | -- |
| | | ----- |
| Total current assets | | 6,088 |
| Property and equipment, net | | 336 |
| Deferred income taxes | | 18 |
| | | ----- |
| | | \$ 6,442 |
| | | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Bank line of credit | | \$ 1,277 |
| Short term bank loans | | 1,724 |
| Current portion of term loans | | 143 |
| Accounts payable and accrued expenses | | 1,365 |
| Income taxes payable | | 232 |
| | | ----- |
| Total current liabilities | | 4,741 |
| Term loans, net of current portion | | 128 |
| Severance payable | | 56 |
| | | ----- |

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| | |
|--|----------|
| Total liabilities | 4,925 |
| | ----- |
| Commitments and contingencies | |
| Minority interest | 395 |
| 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 | (130) |
| Retained Earnings | 1,168 |
| | ----- |
| Total stockholders' equity | 1,122 |
| | ----- |
| | \$ 6,442 |
| | ===== |

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 September 30, | |
|----------------------------|------------------------------------|----------|
| | 2005 | 2004 |
| | ----- | ----- |
| Sales | \$ 4,571 | \$ 4,084 |
| Cost of sales | 2,906 | 2,375 |
| | ----- | ----- |
| Gross profit | 1,665 | 1,709 |
| | ----- | ----- |
| Operating expenses: | | |
| Research and development | 203 | 100 |
| Selling expenses | 67 | 31 |
| General and administrative | 914 | 913 |
| | ----- | ----- |
| Total operating expenses | 1,184 | 1,044 |
| | ----- | ----- |
| Income from operations | 481 | 665 |
| | ----- | ----- |
| Other income (expense): | | |
| Interest expense, net | (182) | (180) |
| | ----- | ----- |

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| | | |
|--|-----------|-----------|
| Income before provision for income taxes and minority interest | 299 | 485 |
| Provision for income taxes | 66 | 71 |
| Minority interest | (55) | (147) |
| | ----- | ----- |
| Net income | 178 | 267 |
| Other comprehensive (loss) income, net of taxes | | |
| Foreign translation (loss) gain | (72) | (43) |
| | ----- | ----- |
| Comprehensive (loss) income | \$ 106 | \$ 224 |
| | ===== | ===== |
| Basic net loss per share | \$ 0.03 | \$ 0.05 |
| | ===== | ===== |
| Basic weighted average common shares outstanding | 5,706,443 | 5,483,000 |
| | ===== | ===== |

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

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|--------|
| | 2005 | 2004 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income | \$ 178 | \$ 267 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 120 | 103 |
| Minority interest | 23 | 153 |
| Gain on sale of property and equipment | -- | (9) |
| Forgiveness of indebtedness | (115) | -- |
| Deferred income tax | 2 | -- |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (321) | 635 |
| Inventories | (191) | (499) |
| Prepaid expenses and other current assets | (293) | (36) |
| Accounts payable and accrued expenses | (142) | (515) |
| Income tax payable | 53 | (48) |
| Customer deposits and other current liabilities | 74 | 1 |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | (612) | 52 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (42) | (3) |
| Increase in due from stockholder | 348 | (158) |

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| | | |
|--|----------|---------|
| (Increase) decrease in due from affiliates | 1 | 48 |
| | ----- | ----- |
| Net cash used in investing activities | 307 | (113) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Increase in bank line of credit, net | 575 | (254) |
| Proceeds from long term debt | 2,306 | 3,403 |
| Repayment of long-term debt | (2,522) | (3,198) |
| | ----- | ----- |
| Net cash (used in) provided by financing activities | 359 | (49) |
| | ----- | ----- |
| Effects of exchange rates on cash | (72) | (15) |
| | ----- | ----- |
| Increase (decrease) in cash | (18) | (125) |
| Cash, beginning of period | 124 | 181 |
| | ----- | ----- |
| Cash, end of period | \$ 106 | \$ 56 |
| | ===== | ===== |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 182 | \$ 118 |
| | ===== | ===== |
| Income taxes | \$ 59 | \$ 21 |
| | ===== | ===== |
| 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, 2005

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

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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, 2004. The results of operations for the six and three months ended June 30, 2005 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2005.

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)
SEPTEMBER 30, 2005

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent Accounting Pronouncements

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

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financial position or results of operations.

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

NOTE 4 - PROVISION FOR INCOME TAXES -

The income tax expense for the six months ended June 30, 2005 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.

NOTE 5 - INVESTMENT IN SUBSIDIARY-

In July, the Company received clearance from the Israeli tax department to proceed with the acquisition of an additional 18% interest in Enertec Systems, increasing its' ownership to 73%. The Company exchanged 1,000,000 of its shares for the 18%. The Company's quoted market price was \$1.05 as of the date of the transfer.

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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

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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, 2005 has increased by \$50,000 compared to the cash balance at September 30, 2004, with cash and cash equivalents of \$106,000 as of September 30, 2005 compared to \$56,000 at September 30, 2004. Total current assets at September 30, 2005 were \$6,088,000 as compared to \$5,144,000 at September 30, 2004. The increase in current assets is mainly due to an increase in accounts receivable and inventory.

Our accounts receivable at September 30, 2005 was \$2,865,000, as compared to \$2,373,000 at September 30, 2004. This change in accounts receivable is primarily due to higher sales for the first nine months of 2005 as compared to the same period in 2004 and longer payment terms for some of the orders.

As of September 30, 2005 our working capital was \$1,347,000 as compared to \$1,040,000 at September 30, 2004. The increase of \$307,000 in the working capital is primarily due to an increase in accounts receivable.

Bank debt shifts between lines of credit, to short or long term loans depending on the interest rates at various periods of time and cash flow income projections. The current portion of our long-term loans at September 30, 2005 totaled \$143,000 compared to \$151,000 at September 30, 2004. Our other short-term loans amounted to \$1,724,000 for the nine-month period ended September 30, 2005 as compared to \$1,996,000 at September 30, 2004.

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As of September 30, 2005, our total bank debt was \$3,272,000 as opposed to \$3,084,000 at the end of September 30, 2004. These funds were borrowed as follows:

\$1,867,000 includes the current portion of long-term debt as various short-term bank loans due through September 2006, \$128,000 of long-term debt due through May 2009 and \$1,277,000 borrowed using our bank lines of credit. We increased the amount borrowed for the nine months ended September 30, 2005 by \$188,000 (6.1%) from \$3,084,000 as of September 30, 2004. The increase in bank debt is mainly due to an increased need for working capital for financing the higher volume of sales, financing of increased raw materials and inventory related to the increased volume of new orders received and higher R&D expenses.

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, 2005 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

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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, 2005 Compared to Three and Nine Months Ended September 30, 2004

Revenues for the three and nine months ended September 30, 2005 were \$1,040,000, and \$4,571,000, respectively, as compared to \$1,396,000 and \$4,084,000 for the three and nine months ended September 30, 2004, respectively. This represents a decrease of \$356,000, or 25.5%, for the quarter ended September 30, 2005 and an increase of \$487,000, or 12%, for the nine months ended September 30, 2005, when compared to the same period for 2004. The increase in revenues for the nine months ended September 30, 2005 versus the same period for the prior year is mainly due to the increase in the revenues for the first six months of 2005 as compared to the first six months of 2004, partly offset by the decrease in sales of third quarter of 2005 as compared to the third quarter of 2004. The reason for the increase in the first six months of 2005 is that during the fourth quarter of 2004 and the first quarter of 2005 Enertec Systems introduced several new products in the military division resulting in higher sales during the first quarter of 2005, a trend which continued during the second quarter of 2005. In addition to this Enertec Electronics, the commercial division, experienced higher sales due to the rising international demand for high tech products which impacted Enertec Electronics' customer base and as a result a higher demand for Enertec Electronics Power Supplies.

The decrease in the sales of the third quarter of 2005 as compared with the third quarter of 2004 is mainly due to several large orders with long-term delivery and significant design and tooling periods. The delivery of these orders will take place during the last quarter of 2005 and the following quarters of 2006. These orders commenced production during the third quarter of 2005 and are reflected in the increase in work in process and inventory which increased by approximately \$250,000 during the third quarter of 2005. In addition to this we invested heavily in marketing, the result of which was a significant increase in the backlog of orders to about \$5,350,000 at the end of September 30 2005 as compared with approximately \$2,510,000 at the end of September 30 2004, but also diverted some resources away from immediate sales. Furthermore as a result of fluctuations in the exchange rate between the United States Dollar and the Israeli Shekel a loss of \$40,000 was calculated for the third quarter ended September 30 2005 as compared with the same prior quarter.

Gross profit totaled approximately \$227,000 for the quarter ended September 30, 2005 and \$1,665,000 for the nine months September 30, 2005. For

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the three and nine months ended September 30, 2004, gross profit totaled \$483,000 and \$1,709,000, respectively. Comparing the three month period ended September 30, 2005 to the same period of 2004, gross profit decreased by approximately \$256,000, or 53%. For the nine-month period ended September 30, 2005, gross profit decreased approximately \$44,000, or 2.6%, compared to the same period of 2004. The decrease in gross profit is due to the focus in the last couple of quarters on projects with higher cost of sales resulting in lower profit margins. In addition, during the third quarter of 2005 we had lower revenues than for the same period in 2004, due mainly to work in process for several large orders utilizing new technology for delivery during the fourth quarter of 2005 and during 2006. As is typical with products in early stage of production, the profits are lower than for repeat orders for the same product.

Gross profit as a percentage of sales was 21.8% for the three-month period ended September 30, 2005 as compared to 34.6% for the same period of 2004 and for the nine-month period ended September 30, 2005, was 36.4% as compared to 41.8% for the same period of 2004. The decrease in gross profit as a percentage of sales is a result of: lower gross profit margin as compared to 2004 and long term projects with higher design and tooling costs.

Total operating expenses are comprised of R&D, selling and general and administrative expenses. Historically R&D costs were included into the cost of sales. However in the third quarter of 2005 R&D costs were re-classified and shown separately as a part of the operating expenses. 2004's financials have been re-classified accordingly to allow comparison.

For the three months and nine months ended September 30, 2005, operating expenses totaled \$358,000 and \$1,184,000, respectively. This was an increase of \$40,000 (12.6%) and \$140,000 (13.4%) when compared to the three and nine-month periods ended September 30, 2004. The increase in operating expenses for the nine-month period is attributable mainly to the increase of \$103,000 in R&D costs and \$36,000 in selling expenses, as compared to the same period of 2004.

The increase in operating expenses for the three-month period ended September 30, 2005 is attributable mainly to an increase of \$59,000 in R&D costs and approximately \$14,000 in selling expenses, partly offset by a reduction in G&A cost. The increase in selling expenses is a result of our efforts to introduce new product lines in the marketplace.

Net income for the three months ended September 30, 2005 was (\$83,000) and \$178,000 in the nine months ended September 30, 2005. This compares to net income of \$62,000 in the three months ended September 30, 2004 and \$267,000 in the nine months ended September 30, 2004. The decrease in net income by \$145,000, or 234%, comparing the three months ended September 30, 2005 to the three months ended September 30, 2004 was mainly due to a decrease of \$256,000 in the gross profit and an increase of \$40,000 in operating expenses offset by a decrease of \$30,000 in provision for income taxes and a decrease of \$122,000 in the minority interest. The decrease in net income by \$89,000, or 33.3%, comparing the nine months ended September 30, 2005 to the nine months ended September 30, 2004 was due to a decrease of \$44,000 in gross profit, an increase of \$140,000 in the operating expenses, offset by a decrease of \$92,000 in the minority interest.

For the three and nine months ended September 30, 2005, provisions for income taxes was (\$1,000) and \$66,000, respectively. This represents a decreased provision for income taxes for the three months ended September 30, 2005 versus the same prior period for 2004 of \$30,000 and a decreased provision for income taxes for nine months ended September 30, 2005 for the same prior period for 2004 of \$5,000. The reason for the decrease in income tax provision for the third quarter of 2005 as compared to the same period in 2004 is due to the combination of the decrease in sales for the quarter, the decrease in the gross profit for the quarter, and the increase in operating expenses for the quarter.

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This resulted in a decrease in income for the quarter and a corresponding reduction in our provision for taxes.

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Enertec Electronics derives its revenues from the commercial arena and from standard military power supplies that it sells to the military industry as well as a few residual ATE orders for the military industry that were received in 2002 that have recurring revenues and delivery dates out into 2005. Going forward when we refer to commercial revenues we will be referring exclusively to Enertec Electronics' commercial business and when we refer to military business, we refer to Enertec Systems 2001 and the residual military orders referred to above within Enertec Electronics.

As of September 30, 2005, we had two customers that accounted for approximately 55% of the accounts receivable. For the nine months ended September 30, 2005, approximately 47% of our sales were to two customers.

Research and Development Costs

Research and development costs in the accompanying statement of income consist of salaries. Research and development costs for the three and nine months ended September 30, 2005 were \$89,000 and \$203,000, respectively. Research and development costs for the three and nine months ended September 30, 2004 were \$30,000 and \$100,000, respectively. The increased R&D cost is related to the costs of developing several new technologies such as driver modules for airborne lasers, power distribution modules for naval applications and new technologies for integrated testing solutions of ballistic missiles.

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 we are exposed to business and economic risk. Although we do 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 us 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, 2005 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,

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short-term bank loans and accounts payable and accrued expenses approximate fair value at September 30, 2005 because of the relatively short maturity of the instruments.

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

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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 all 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 in our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

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

On April 16, 2002, Orckit Communications brought an action in the Tel Aviv District Court against Gaia Converter, a French company and Alcyon Production Systems, also a French company and a subcontractor of Gaia Converter, seeking \$1,627,966, alleging that the DC converters supplied to it by Gaia Converter were defective and caused Orckit to replace the converters at a substantial financial expense. Enertec Electronics was joined in the action as a local Israeli distributor of the Gaia Converter products. Gaia Converter has advised us that the converters in issue were free from any and all defects and were in good working order and that it was the faulty performance of Orckit's product into which the converters were incorporated that caused them to fail at a greater rate than anticipated by Orckit. Enertec Electronics filed a response to this claim that there is no cause of action against it, as among other things, Enertec Electronics is merely the local Israeli sales representative of Gaia Converter and did not make any implied or express representations or warranties to Orckit regarding the suitability of the converters or otherwise, nor was Enertec Electronics required to do so by law. Technical specifications required by Orckit for the converters were determined and communicated directly by Orckit

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to Gaia Converter and all other communications regarding the converters were directly between Orckit and Gaia Converter. Moreover, Orckit conducted a qualification test of the converters and confirmed to Gaia Converter that the converters complied with their requirements subsequent to such testing. Neither Gaia Converter nor Alcyon Production Systems have filed a response to this action, and consequently Orkit Communications requested and obtained default judgments from the Tel Aviv District Court against both Gaia Converter and Alcyon Production Systems. Enertec Electronics is defending and is continuing to defend this action vigorously and we do not believe that it will have a material adverse impact on our business. Orkit has filed affidavits setting out the evidence supporting their allegations and Enertec has filed affidavits setting out the evidence supporting its defense. The case has been scheduled for hearing in June of 2006

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

On February 22, 2005, we agreed to issue 1 million shares of common stock to Zvika Avni, Chief Operating Officer of Enertec Systems Ltd. which is one of our majority owned subsidiaries, as consideration for the transfer of 18% of the outstanding shares of Enertec Systems Ltd. to Enertec Management Limited, one of our wholly owned subsidiaries. Completion of the transaction was subject to receipt of a tax exemption (of a taxable event) by the Israeli Income Tax Authority, which exemption was received in July 2005.

We own 100% of the issued and outstanding capital stock of Enertec Electronics Limited, which owns 100% of the issued and outstanding capital stock of Enertec Management Limited. After completion of the above transaction, Enertec Management Limited owns 73% of the outstanding capital stock of Enertec Systems Ltd. The remaining 27% of the outstanding capital stock of Enertec Systems Ltd. is owned by Harry Mund, our Chairman of the Board, Chief Executive Officer, President and Secretary. Issuance of the shares of common stock to Zvika Avni will be made pursuant to the exemption from registration requirements under Regulation S or Regulation D, promulgated pursuant to the Securities Act of 1933, as amended.

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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. |

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- 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.

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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.

Dated: November 14, 2005

By: /s/ Harry Mund

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

Dated: November 14, 2005

By: /s/ Miron Markovitz

Miron Markovitz
Chief Financial Officer,
Chief Accounting
Officer and Director

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