

LAPIS TECHNOLOGIES INC
Form 10QSB
May 15, 2007

**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 MARCH 31, 2007

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 Steet, Suite 1008

New York, New York 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 May 14, 2007, the issuer had 5,483,000 outstanding shares of Common Stock, \$.0001 par value per share.

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

LAPIS TECHNOLOGIES, INC.
MARCH 31, 2007 QUARTERLY REPORT ON FORM 10-QSB
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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

March 31,
2007

Current Assets:

Cash and cash equivalents	\$	79
Accounts receivable		4,326
Inventories		3,110
Prepaid expenses and other current assets		405
Due from stockholder		14
Total current assets		7,934
Property and equipment, net		302
Deferred income taxes		22
	\$	8,258

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Bank line of credit	\$	1,006
Short term bank loans		3,005
Current portion of term loans		186
Accounts payable and accrued expenses		2,291
Due to stockholder		-
Due to affiliates		198
Income taxes payable		38
Total current liabilities		6,724
Term loans, net of current portion		368
Severance payable		85
Total liabilities		7,177
Commitments and contingencies		
Minority interest		262

Stockholders' Equity:

Preferred stock; \$.001 par value, 5,000,000 shares authorized,
none issued

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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	(137)
Retained Earnings	872
Total stockholders' equity	819
	\$ 8,258

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)

	Three Months Ended March 31,	
	2007	2006
Sales	1,857	\$ 1,994
Cost of sales	1,399	1,394
Gross profit	458	600
Operating expenses:		
Research and development expenses	169	70
Selling expenses	3	27
General and administrative	293	279
Total operating expenses	465	376
Income from operations	(7)	224
Other income (expense):		
Interest expense, net	(91)	(87)
Income (loss) before provision for income taxes and minority interest	(98)	137
Provision for income taxes	37	56
Minority interest	(59)	18
Net income (loss)	(76)	63
Other comprehensive (loss) income, net of taxes		
Foreign translation (loss) gain	(14)	(16)
Comprehensive (loss) income	\$ (90)	\$ 47
Basic net income (loss) per share	\$ (0.01)	\$ 0.01
Basic weighted average common shares outstanding	6,483,000	6,483,000

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

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

	Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	(76)	\$ 63
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	29	21
Minority interest	(54)	15
Gain on sale of property and equipment	-	-
Deferred income tax	-	-
Change in operating assets and liabilities:		
Accounts receivable	351	43
Inventories	(141)	109
Prepaid expenses and other current assets	1	(286)
Accounts payable and accrued expenses	(447)	(309)
Income tax payable	40	-
Customer deposits	-	-
Net cash provided by (used in) operating activities	(297)	(344)
Cash flows from investing activities:		
Purchase of property and equipment	(31)	(16)
Increase in due to affiliates	2	-
Increase in due to stockholder	(24)	2
Net cash used in investing activities	(53)	(14)
Cash flows from financing activities:		
Increase in bank line of credit, net	(500)	344
Proceeds from long term debt	1,227	760
Repayment of long-term debt	(319)	(794)
Net cash (used in) provided by financing activities	409	311
Effects of exchange rates on cash	14	(16)
Increase (decrease) in cash	72	(63)
Cash, beginning of period	7	78
Cash, end of period	\$ 79	\$ 15
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 91	\$ 34
Income taxes	\$ 0	\$ 51

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)
MARCH 31, 2007

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, 2006. The results of operations for three months ended March 31, 2007 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2007.

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)
MARCH 31, 2007

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)
MARCH 31, 2007

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115." This Standard allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities (as well as certain non-financial instruments that are similar to financial instruments) at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, the Statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. SFAS No. 159 is effective for ATMI beginning on January 1, 2008. We are currently evaluating the impact this new Standard could have on our financial position and results of operations.

NOTE 4 - PROVISION FOR INCOME TAXES -

The income tax expense for the three months ended March 31, 2007 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 it's subsidiaries.

Item 2. Management's Discussion and Analysis or Plan of Operation.

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 distributor of electronic components and products relating to power supplies, converters and related power conversion products and test equipment. Enertec Systems designs, develops and manufactures test systems, airborne, shipborne, and land electronic equipment, as well as various other military electronic products for manufacturers of defense systems in accordance with their specifications.

Liquidity and Capital Resources

As of March 31, 2007 our cash balance was \$79,000 as compared to \$15,000 at March 31, 2006. Total current assets at March 31, 2007 were \$7,934,000 as compared to \$6,672,000 at March 31, 2006. The increase in current assets is mainly due to the increase in accounts receivables and inventories.

Our accounts receivable at March 31, 2007 was \$4,326,000 as compared to \$3,669,000 at March 31, 2006. The change in accounts receivable is primarily due to the decrease in USD/Shekel exchange rate since the accounts receivable are in Shekels. The USD/Shekel exchange rate decreased by 10.9% from 4.665 as of March 2006 to 4,155 as of March 2007.

As of March 31, 2007 our working capital was \$1,210,000 as compared to \$1,742,000 at March 31, 2006. The decrease in working capital is mainly due to increase of short term loans and decrease of long term loans and decrease in prepaid expenses and other current assets.

The current portion of long-term debt at March 31, 2007 was \$186,000 compared to \$358,000 as of March 31, 2006.

At March 31, 2007 our total bank debt was \$4,565,000 as opposed to \$3,616,000 at the end of March 31, 2006. These funds were borrowed as follows: \$3,191,000 which includes the current portion of long term debt, as various short term bank loans due through 2007, \$368,000 of long-term debt due through March 2010 and \$1,006,000 using our bank lines of credit. As a result we increased the amount borrowed for the three-months ended March 31, 2007 by \$ 949,000. The increase in bank debt is mainly due to the increase in accounts receivable and the decrease in USD/Shekel exchange rate since the loans are in Shekels. The USD/Shekel exchange rate decreased by 10.9% from 4.665 as of March 2006 to 4,155 as of March 2007.

There are no other lines of credit available 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 March 31, 2007 we are current with all of our bank debt and compliant with all the terms of our bank debt.

Financings

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. 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. At the present time, we do not have definitive plans to seek additional financing.

Results of Operations

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Revenues for the three months ended March 31, 2007 were \$1,857,000 as compared to \$1,994,000 for the three months ended March 31, 2006. This represents a decrease of \$137,000 or 6.9% comparing the two periods. The decrease in revenue for the three months ended March 31, 2007 is primarily the result of focusing on several long term defense projects with scheduled deliveries during the years 2007-2009.

Gross profit decreased by \$142,000 or 23.7%, to \$458,000 for the three months ended March 31, 2007 as compared to \$600,000 for the three months ended March 31, 2006. The decrease in gross profit is primarily the result of decrease in the sales.

Gross profit as a percentage of sales for the three month ended March 31, 2007 was 24.7 % as compared to 30.1 % for the three month ended March 31, 2006. The decrease in gross profit as a percentage of sales is a result of increase in cost of sales due to our work done on the design of several long term orders for military products scheduled for deliveries during the next years.

For the three months ended March 31, 2007, Selling, General and Administrative expenses totaled \$465,000. This was an increase of \$ 89,000, or 23.7% as compared to the same period 2006. The increase in selling, general and administrative expenses is mainly a result of the increase in the R&D expenses.

For the three months ended March 31, 2007, Research and Development expenses increased to \$169,000 as compared to \$70,000 for the three months ended March 31, 2006. This represents an increase \$99,000 or 141.4 % comparing the two periods. The increase in R&D expenses for the three months ended March 31, 2007 is primarily the result of our continuous strategic move to develop new technologies for defense products, in particular simulators for ballistic missiles.,

Interest expense was \$91,000 and \$87,000 for the three months ended March 31, 2007 and 2006, respectively. This was an increase of \$4,000 or 4.6%. The main reason for this increase was the increase in total bank debt.

Our net loss was \$76,000 for the three months ended March 31, 2007 compared to a net income of \$63,000 for the three months ended March 31, 2006. The decrease in profitability for the three months ended March 31, 2007 was due to the decrease of \$142,000 in the gross profit, an increase of \$99,000 in Research & Development expenses partly

compensated by a decrease of \$ 77,000 in the minority interest.

At March 31, 2007, we had two customers that accounted for approximately 58% of accounts receivable. For the three-month periods ended March 31, 2007 and 2006, approximately 56.8% and 59.2% of our sales were to two customers, respectively.

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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.

Research and Development Costs - Research and development costs are charged to general and administrative expense in the accompanying statement of income and consist mainly of salaries. Research and development cost for the 3 months ended March 31, 2007 and 2006 were approximately \$169,000 and \$70,000, respectively.

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 March 2007 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 March 2007. The carrying value of the long-term debt approximate fair value at March 2007 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 year. 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 March 31, 2007. 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

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.

Not applicable.

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	

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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 and 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.

Date: May 14, 2007

By: /s/ Harry Mund

Harry Mund
Chief Executive Officer

Date: May 14, 2007

By: /s/ Miron Markovitz

Miron Markovitz
Chief Financial Officer and
Principal Accounting Officer