

LAPIS TECHNOLOGIES INC
Form 10-Q
May 14, 2008

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

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT~

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER _____

LAPIS TECHNOLOGIES, INC.

(Exact name of registrant as specified 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, Zip Code)

(212) 937-3580

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of registrant's common stock outstanding, as of May 1, 2008 was 6,483,000

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

March 31,
2008

| ASSETS | |
|--|------------------|
| Current Assets: | |
| Cash and cash equivalents | \$ 521 |
| Accounts receivable | 5,221 |
| Inventories | 4,280 |
| Prepaid expenses and other current assets | 130 |
| Due from stockholder | 68 |
| Total current assets | 10,220 |
| Property and equipment, net | 273 |
| Deferred income taxes | 21 |
| | \$ 10,514 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Current Liabilities: | |
| Bank line of credit | \$ 1,398 |
| Short term bank loans | 4,294 |
| Current portion of term loans | 217 |
| Accounts payable and accrued expenses | 2,803 |
| Due to stockholder | - |
| Due to affiliates | (102) |
| Income taxes payable | - |
| Total current liabilities | 8,610 |
| Term loans, net of current portion | 213 |
| Severance payable | 190 |
| Total liabilities | 9,013 |
| Commitments and contingencies | |
| Minority interest | 468 |
| Stockholders' Equity: | |
| Preferred stock; \$.001 par value, 5,000,000 shares authorized, none issued | - |
| Common stock; \$.001 par value, 100,000,000 shares authorized, 5,483,000 shares issued and outstanding | 6 |
| Additional paid-in capital | 78 |
| Accumulated other comprehensive loss | 193 |
| Retained Earnings | 756 |

| | |
|----------------------------|-----------|
| Total stockholders' equity | 1,033 |
| | \$ 10,514 |

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, | |
|---|---------------------------------|-----------|
| | 2008 | 2007 |
| Sales | \$ 2,401 | \$ 1,857 |
| Cost of sales | 1,907 | 1,399 |
| Gross profit | 494 | 458 |
| Operating expenses: | | |
| Research and development expenses | 22 | 169 |
| Selling expenses | 7 | 3 |
| General and administrative | 555 | 293 |
| Total operating expenses | 584 | 465 |
| Income from operations | (90) | (7) |
| Other income (expense): | | |
| Interest expense, net | (117) | (91) |
| Income (loss) before provision for income taxes and minority interest | (207) | (98) |
| Provision for income taxes | - | 37 |
| Minority interest | (7) | (59) |
| Net income (loss) | (200) | (76) |
| Other comprehensive (loss) income, net of taxes | | |
| Foreign translation (loss) gain | 102 | (14) |
| Comprehensive (loss) income | \$ (98) | \$ (90) |
| Basic net income (loss) per share | \$ (0.03) | \$ (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, | |
|---|---------------------------------|---------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net income | \$ (200) | \$ (76) |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 32 | 29 |
| Minority interest | 20 | (54) |
| Gain on sale of property and equipment | - | - |
| Deferred income tax | (1) | - |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 193 | 351 |
| Inventories | (544) | (141) |
| Prepaid expenses and other current assets | (12) | 1 |
| Accounts payable and accrued expenses | 443 | (447) |
| Income tax payable | (2) | 40 |
| Severance payable | 14 | - |
| Net cash provided by (used in) operating activities | (57) | (297) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (38) | (31) |
| Increase in due to affiliates | (19) | 2 |
| Increase in due to stockholder | (107) | (24) |
| Net cash used in investing activities | (164) | (53) |
| Cash flows from financing activities: | | |
| Increase in bank line of credit, net | 36 | (500) |
| Proceeds from long term debt | 1,282 | 1,227 |
| Repayment of long-term debt | (912) | (319) |
| Net cash (used in) provided by financing activities | 406 | 409 |
| Effects of exchange rates on cash | 203 | 14 |
| Increase (decrease) in cash | 388 | 72 |
| Cash, beginning of period | 133 | 7 |
| Cash, end of period | \$ 521 | \$ 79 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 117 | \$ 91 |
| Income taxes | \$ 10 | - |

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, 2008

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, 2007. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2008.

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, 2008

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement 109," ("FIN 48"). FIN 48 prescribes a comprehensive model as to how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The adoption of FIN 48 is effective January 1, 2007. The Company has determined there will be no effect on their financial statements.

In June 2006, the FASB ratified the Emerging Issues Task Force ("EITF") consensus on EITF Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43." EITF Issue No. 06-2 requires companies to accrue the costs of compensated absences under a sabbatical or similar benefit arrangement over the requisite service period. EITF Issue No. 06-2 is effective for us beginning July 1, 2007. The cumulative effect of the application of this consensus on prior period results should be recognized through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. Elective retrospective application is also permitted. The application of this consensus won't have a material impact on our financial statements.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)," ("FAS 158"). Among other things, FAS 158 requires companies to prospectively recognize a net liability or asset and to report the funded status of their defined benefit pension and other postretirement benefit plans on their balance sheets, with an offsetting adjustment to accumulated other comprehensive income; such recognition will not affect the Company's statement of income. The adoption of FAS 158 is effective for the year ending December 31, 2006. The Company has determined there will be no effect on their financial statements.

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.

In December 2007 the FASB issued SFAS No. 160 "Non-controlling Interests in Consolidated Financial Statements". FAS 160 seeks to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards. This statement is effective for fiscal years beginning after December 15, 2008. The Company has not yet determined what the effect will be, if any, on their financial statements.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Amounts)
MARCH 31, 2008

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent Accounting Pronouncements

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

NOTE 4 – PROVISION FOR INCOME TAXES -

The income tax expense for the three months ended March 31, 2008 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 – SALE OF THE COMPANY

On February 28, 2008 the Company entered into an agreement with an Israeli Company that currently trades on the Tel Aviv Stock Exchange. Under this agreement Lapis will exchange approximately 75,000,000 of its shares (92% based upon the current outstanding amounts) in exchange for approximately 4,500,000 shares of Star Night Technologies Ltd. In addition, the Company's chief executive officer has been granted certain options to sell his Lapis shares to Star Night under certain circumstances.

The agreement also calls for the sale of the Company's wholly owned subsidiary, as well as the subsidiary's own majority owned subsidiary. The result of these transactions will be the ownership of approximately 4,500,000 shares of Star Night Technologies, Ltd.

For further information please refer to Form 8-K filed with the Securities and Exchange Commission on March 5, 2008 which is incorporated by reference into this filing

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.

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. We are manufacturers and distributors of various military and airborne systems, simulators, automatic test equipment (ATE), electronic components and products relating to power supplies, converters and related power conversion products.

On February 28, 2008, we entered into an agreement for the issue and sale of shares in Lapis Technologies, Inc. and the transfer of shares of Star Night Technologies Ltd. to us (the "Lapis SPA"), with Harry Mund, and Mordechai Solomon (the "Investor"). Mr. Mund is the Company's chief executive officer, director, and majority stockholder. The Lapis SPA will close (subject to fulfillment or waiver of certain closing conditions or the waiver thereof prior to closing, as well as the performance of certain covenants by the parties that include, *inter alia*, the receipt of a fairness opinion) 21 days following the date on which an information statement on Schedule 14C under the Securities Exchange Act of 1934, as amended, is mailed to stockholders of the Company (the "Closing Date"), which closing shall occur concurrently with that of the Systems SPA (defined below) and the Electronics SPA (defined below). Pursuant to the Lapis SPA, we agreed to issue to the Investor, on the Closing Date, 75,129,500 shares of the Company's common stock, representing 92% of the Company's issued and outstanding shares on a fully diluted basis. The Investor agreed to transfer to the Company, on the Closing Date, 4,539,557 shares in Star Night Technologies Ltd., a company traded on the Tel Aviv Stock Exchange, held by the Investor in person.

In addition, pursuant to the Lapis SPA, the Investor agreed to grant to Mr. Mund an option (the "Mund Option"), exercisable by Mr. Mund in his sole discretion, to sell to the Investor, Mr. Mund's 4,750,000 shares of the Company's common stock (the "Option Shares"). The Mund Option will be exercisable during a period of 90 calendar days immediately following the first anniversary of the Closing Date (with respect to 50% of the Option Shares, at an exercise price of US \$0.5434 per share, subject to adjustment in the event of stock splits, stock dividends, and similar transactions) and/or the second anniversary of the Closing Date (with respect to all of the Option Shares, at an exercise price of US \$0.6038 per share, subject to adjustment in the event of stock splits, stock dividends, and similar transactions). The Mund Option is subject to the aggregate value of the Option Shares being no higher than US \$2,868,000, subject to certain adjustments, for a period of 65 consecutive calendar days commencing 120 days after the Closing Date (so long as Mr. Mund may sell his shares pursuant to Rule 144 under the Securities Act of 1933, as amended (the "Securities Act")) during a period of 65 consecutive calendar days during a period of 24 months following

the Closing Date.

In connection with the Lapis SPA, on February 28, 2008, our indirect wholly owned subsidiary, Enertec Management Ltd. (“Enertec Management”) (which we own through its direct wholly owned subsidiary Enertec Electronics Ltd.), entered into an agreement for the sale and purchase of Enertec Systems 2001 Ltd. (the “Systems SPA”), with Harry Mund, and S.D.S. (Star Defense Systems) Ltd., a company traded on the Tel Aviv Stock Exchange (“S.D.S.”) whose majority stockholder is Mordechai Solomon. The Systems SPA will close on the Closing Date concurrently with the Lapis SPA and the Electronics SPA (defined below). Pursuant to the Systems SPA, Enertec Management and Mr. Mund agreed to sell, and S.D.S. agreed to purchase, on the Closing Date, an aggregate of 251,000 shares of Enertec Systems 2001 Ltd. (“Enertec Systems”), representing all of the issued and outstanding capital stock of Enertec Systems, for an aggregate purchase price of US \$1,500,000. The 251,000 shares to be sold pursuant to the Systems SPA represent 67,770 shares to be sold by Mr. Mund and 183,230 shares to be sold by Enertec Management.

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In connection with the Lapis SPA and the Systems SPA, we also entered into, on February 28, 2008, an agreement with Mund Holdings Ltd., a company owned by Harry Mund (the "Electronics SPA"). The Electronics SPA will close on the Closing Date concurrently with the Lapis SPA and the Systems SPA. Pursuant to the Electronics SPA, we agreed to sell, and Mund Holdings Ltd. agreed to purchase, on the Closing Date, NIS (New Israeli Shekel) 100 divided into 100 shares of NIS 1 each, of Enertec Electronics Ltd. ("Enertec Electronics"), representing all of the issued and outstanding capital stock of Enertec Electronics, for a purchase price of US \$250,000.

Our issuance of shares of common stock to Mr. Solomon under the Lapis SPA will be made pursuant to the exemption from registration requirements under Regulation D and/or Regulation S of the Securities Act of 1933, as amended (the "Securities Act"). No form of general solicitation or general advertising was conducted in connection with the issuance. The certificates representing the shares will contain restrictive legends preventing the sale, transfer of such shares unless registered under the Securities Act or pursuant to an exemption therefrom. Mr. Mordechai is an "accredited investor" as defined under Regulation D and/or is not a "U.S. Person" as defined under Regulation S.

Liquidity and Capital Resources

As of March 31, 2008 our cash balance was \$521,000 as compared to \$79,000 at March 31, 2007. Total current assets at March 31, 2008 were \$10,220,000 as compared to \$7,934,000 at March 31, 2007. The increase in current assets is mainly due to the increase in cash balance, accounts receivable and inventories.

Our accounts receivable at March 31, 2008 was \$5,221,000 as compared to \$4,326,000 at March 31, 2007. The change in accounts receivable is primarily due to the increase in sales.

As of March 31, 2008 our working capital was \$1,610,000 as compared to \$1,210,000 at March 31, 2007. The increase in working capital is mainly due to a larger increase in current assets than the increase in bank line of credit and in short term loans and the increase in accounts payable and accrued expenses.

The current portion of long-term debt at March 31, 2008 was \$217,000 as compared to \$186,000 as of March 31, 2007.

At March 31, 2008 our total bank debt was \$6,122,000 as opposed to \$4,565,000 at the end of March 31, 2007. These funds were borrowed as follows: \$4,511,000 which includes the current portion of long term debt as various short term bank loans due through 2008, \$213,000 of long term debt due through 2010 and \$1,398,000 using our bank lines of credit. As a result we increased the amount borrowed for the three-month period ended March 31, 2008 by \$ 1,557,000. 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 16.94% from 4.155 as of March 31, 2007 to 3.553 as of March 31, 2008.

As of March 31, 2008, 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 Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Revenues for the three months ended March 31, 2008 were \$2,401,000 as compared to \$1,857,000 for the three months ended March 31, 2007. This represents an increase of \$544,000 or 29.3% comparing the two periods. The increase in revenue for the three months ended March 31, 2008 is mainly the result of the increase in the revenues of the military business and the decrease in USD/Shekel exchange rate.

The average USD/Shekel exchange rate decreased by 16.34% from 4.215 as of March 31, 2007 to 3.623 as of March 31, 2008.

Gross profit increased by \$36,000 or 7.86%, to \$494,000 for the three months ended March 31, 2008 as compared to \$458,000 for the three months ended March 31, 2007. The increase in gross profit is primarily the result of the increase in sales.

Gross profit as a percentage of sales for the three month ended March 31, 2008 was 20.6% as compared to 24.7% for the three month ended March 31, 2007. The decrease in gross profit as a percentage of sales is a result of higher percentage increase in cost of sale as compared to the percentage increase in sales due to the increase in wages and other Shekel related expenses. In the commercial field the decrease in gross profit as a percentage of sales is also a result of narrowing profit margin due to higher cost of sales involved in the increasing volume of customized products in order to allow us to maintain our market share.

For the three months ended March 31, 2008, Selling, General and Administrative expenses totaled \$562,000. This was an increase of \$266,000 or 89.9% as compared to the same period 2007. The increase in selling, general and administrative expenses is mainly a result of the increase in professional services expenses and the decrease in USD/Shekel exchange rate.

For the three months ended March 31, 2008, Research and Development expenses decreased to \$22,000 as compared to \$169,000 for the three months ended March 31, 2007. This represents a decrease of \$147,000 or 87% comparing the two periods. The decrease in R&D expenses for the three months ended March 31, 2008 is primarily the result of more manpower resources during this period being allocated to the fulfillment of the increased number of orders received, resulting in the increase in sales and in the work in process.

Interest expense was \$117,000 and \$91,000 for the three months ended March 31, 2008 and 2007, respectively. This was an increase of \$26,000, or 28.57%. The main reason for this increase was the increase in total bank debt.

Our net loss was \$200,000 for the three months ended March 31, 2008 compared to a net loss of \$76,000 for the three months ended March 31, 2007. The decrease in profitability for the three months ended March 31, 2008 is mainly due to the increase of \$119,000 in the operating expenses and of the interest expenses, partly offset by the increase in the gross profit.

At March 31, 2008, we had two customers that accounted for approximately 65% of accounts receivable. For the three-month periods ended March 31, 2008 and 2007 approximately 52.4% and 56.8% of our sales were to two customers, 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, and results of operations, liquidity or capital expenditures.

Critical Accounting Policies

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

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

Revenue relating to service is recognized on the straight-line basis over the life of the agreement, generally one year. For the three months ended March 31, 2008 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 March 31, 2008 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 31, 2008. The carrying value of the long-term debt approximate fair value at March 31, 2008 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. Quantitative and Qualitative Disclosures About Market Risk.

N/A.

Item 4T. Controls and Procedures.

a)Based on an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, as of March 31, 2008, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Our Chief Executive Officer and Chief Financial Officer also concluded that, as of March 31, 2008, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Office and Chief Financial Officer, to allow timely decision regarding required disclosure.

b)Changes in Internal Controls. During the quarter ended March 31, 2008, there were no changes in our internal control s over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

We are not a party to any pending legal proceeding, nor is our property the subject of a pending legal proceeding, that is not in the ordinary course of business or otherwise material to the financial condition of our business. 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.

Item 1A. Risk Factors.

N/A.

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

| | |
|------|--|
| 10.1 | Agreement for the Issue and Sale of Shares in Lapis Technologies, Inc. and the Transfer of Shares in Star Night Technologies, Ltd., dated February 28, 2008, by and between Lapis Technologies, Inc., Harry Mund and Mordechai Solomon * |
| 10.2 | Agreement for the Sale and Purchase of Entertec Systems 2001 Ltd., dated February 28, 2008, by and between Entertec Management Ltd., Harry Mund and S.D.S. (Star Defense Systems) Ltd. * |
| 10.3 | Agreement, dated February 28, 2008, by and between Lapis Technologies, Inc. and Mund Holdings Ltd. * |
| 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. |

* Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on March 5, 2008.

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, 2008

By: /s/ Harry Mund
Harry Mund
Chief Executive Officer, President
and Chairman of the Board

Date: May 14, 2008

By: /s/ Miron Markovitz
Miron Markovitz
Chief Financial Officer, Chief Accounting
Officer and Director