LAPIS TECHNOLOGIES INC
Form 10KSB
March 30, 2007

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

Form 10-KSB

(Mark One)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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

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

Securities registered under Section 12(b) of the Exchange Act: None.

Securities registered under Section 12(g) of the Exchange Act: None.

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. o

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 x No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. x

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

State issuer's revenues for its most recent fiscal year. $7,839,000

The aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the average high and low price of such common equity as of March 20, 2007, was $1,827,440

As of March 21, 2007, 2007, the issuer had 6,483,000 outstanding shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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

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TABLE OF CONTENTS

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Lapis Technologies Inc. was formed in Delaware on January 31, 2002 under the name Enertec Electronics, Inc. and has 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 own 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, . Where the context requires, references to "we" "us" or "our" throughout this document include reference to Enertec Electronics and Enertec Systems.

Our revenues are derived from two main sources, the military and the commercial markets. In the military market we, design, develop and manufacture test systems, airborne, shipborne, land electronic equipment and other various military systems, for military manufacturers in accordance with their specifications. Most of this military business is carried out by the majority owned subsidiary Enertec Systems. In the commercial market we market and distribute test systems, power supplies and other electronic components manufactured by other manufacturers who engage us to distribute their products. This activity is carried out primarily by Enertec Electronics, a wholly owned subsidiary. We have entered into representative and distribution agreements with seven such manufacturers, four of which have been reduced to written contracts

OUR SUBSIDIARIES

In April 2002, we acquired all of the outstanding capital stock of Enertec Electronics, making it our wholly owned subsidiary. In this transaction, we acquired 99 ordinary shares of Enertec Electronics from Harry Mund, our President and Chief Executive Officer, in exchange for 4,750,000 shares of our common stock. The common stock issued to Mr. Mund represented 86.6% of our outstanding common stock after the transaction.

Enertec Management Limited (f/k/a Elcomtech Ltd.), a private Israeli company, is a wholly owned subsidiary of Enertec Electronics.

Enertec Systems, a private Israeli company, is owned by Enertec Management Limited ("Enertec Management") (73%), and Harry Mund (27%), our President and Chief Executive Officer of Enertec Electronics Limited. The President and Chief Executive Officer of Enertec Systems is Harry Mund, and the Chief Operating Officer is Zvika Avni. Enertec Systems commenced operations on January 1, 2002.

ENERTEC ELECTRONICS

Enertec Electronics is responsible for:

- The marketing and distribution of power supplies and other related power products manufactured by third-party firms that engage us to distribute their products; and
- The marketing and distribution of power supply testing equipment to our military and commercial customers.

Our customers have products that require power supplies. We are contacted by them with their specifications, and based on that data, we provide a standard, or if necessary, a semi-custom or custom, power supply solution. Our technical sales staff in Israel has a comprehensive understanding of our customers' product base, which allows us to provide the most efficient power supply solution to our customers. Our professional marketing and sales teams include engineers who provide support to customers from the early stages of product definition and first sampling, through the production stages and up to after-sales support. Examples of products that require power supplies are computers, modems, printers, faxes, telephones, transmitter/receivers for commercial and military communications, radar, airborne infra-red cameras, surveillance equipment, telecom network routers, video-conference routers, cellular telephone transmitters/receivers, television on-routers, internet-routers, medical MRI scanners, x-ray equipment, robots, drivers for electric motors, and industrial control systems.

We have also entered into representative or distribution agreements with various international power supply manufacturers. These manufacturers granted us rights to sell their products in Israel. We solicit sales within Israel and, upon receipt of purchase orders, we contact the supply manufacturers to fulfill such orders. With some of these manufactures we have agreements that the supply manufacturers will not promote their products directly within Israel. Furthermore, if a customer contacts the supply manufacturers directly, such manufacturer will redirect the customer to us, or advise us to contact the customer regarding the order.

We are also a local Israeli distributor of power testing equipment. This includes DC and AC electronic loads, that is, equipment used for the testing of power supplies which utilize alternate current (AC) and direct current (DC) technology.

Enertec Electronics is focusing its efforts almost exclusively on developing its business within the power supplies and power supply testing equipment arena.

ENERTEC SYSTEMS

Enertec Systems is responsible for designing, developing and manufacturing of various military systems for airborne, land and seaborne applications - for example, electronic systems used in aircrafts such as power supplies, laser drivers, mission computers and control systems for motor and pumps, radio transceivers, altitude measuring devices, ground systems for missile control and sub-assemblies, which are parts of a system developed with a customer's specifications. We also design and manufacture test systems for electronics manufacturers in the military industry based on their specifications for the test and ground support of missiles, aircrafts and other various defense systems.

Through our subsidiaries we customize power supplies, create military systems and ATE's. Enertec Electronics focuses on manufacturing and distributing standard and customized power supplies in the non-military arena, as well as the distribution of standard military related power supplies. Enertec Systems exclusively manufactures customized military related products. Enertec Systems also meets the stringent security clearance requirements for the most sensitive defense programs we are involved.

Our quality control systems are compliant with ISO9001:2000.

The International Organization of Standardization ("ISO") designated ISO9001:2000 to apply to organizations that design, develop, produce, install, and service products. ISO expects organizations to apply this model, and to meet certain requirements, by developing a quality control system. ISO9001:2000 is the international standard for quality assurance and quality design. This is the most common worldwide standard and is implemented across all kinds of organizations, including manufacturers, schools and shops. Most customers in our industry insist on doing business with companies that are least ISO9002:2000 approved, a standard that is less demanding than IS9001:2000. The ISO9002:2000 standard is related mainly to the quality assurance of the manufacturing process, while the higher ISO9001:2000 standard includes both the quality assurance of the manufacturing process component as well as the quality of the design. The ISO9001:2000 standard is important to customers who are placing orders for custom made products.

The ISO9001:2000 quality assurance model is made up of a combination of quality system requirements.

The key requirements are that an organization should:

· Determine the needs and expectations of customers and other interested parties;

· Establish policies, objectives and a work environment necessary to motivate the organization to satisfy these needs;

· Design, resource and manage a system of interconnected processes necessary to implement the policy and attain the objectives;

· Measure and analyze the adequacy, efficiency and effectiveness of each process in fulfilling its purpose and objectives; and

· Pursue the continual improvement of the system from an objective evaluation of its performance.

A typical process for designing, planning and implementing a quality system typically involves:

· Planning the quality initiative and obtaining executive sponsorship;

· Establishing the quality policy for the organization;

· Designing and planning the Quality Management System (QMS), usually based on international standards;

· Establishing the quality organization, developing the quality manual and structure of quality records;

· Determining the scope of implementation;

· Assuring quality plans;

· Reviewing deliverables and determining any actions;

· Auditing quality records;

· Defining areas for process improvement; and

· Managing the improvement program.

NEW PRODUCTS

ENERTEC SYSTEMS

During 2004 , Enertec Systems, began focusing exclusively on the military arena, and entered into numerous new fields of military technology in addition to our "classic" ATE field of expertise. In 2005 and 2006 Enertec Systems continued this focus almost exclusively.

During 2004 we marketed a new line of ruggedized Command and Control mobile stations of modular architecture, allowing adaptation/customization to various applications for which we received orders for several sets in 2005 .During 2006, we delivered several unit for qualification and integration. Following this integration we will deliver the rest of the units during 2007 and we expect many more follow up orders over the next eighteen months.

Over the last twelve months of 2005, we started selling ruggedized mission computers for combat vehicles. We have already delivered three different prototypes to I.A.I. (Israeli Aircraft Industry) who intends to replace their computers previously manufactured in-house and active in the field for many years with upated modern design models from a new outsourced supplier. These first units that we delivered, have successfully passed all qualification and validation tests. As a result of the success of the first prototypes, in 2006 we have received new order for three new prototypes for three different products for delivery during 2007. We anticipate receiving several production orders, each order comprising of a batch of about 40 pcs each model, to fulfill IAI's need for their replacements over the following 2-3 years.

We introduced in 2005 a new line of military grade Power Distribution Units for use in airborne, shipborne and ground applications. We have already received the first batch of orders generating about $800,000 in revenues. The first set was submitted to stringent electrical and environmental qualification tests scheduled for completion in the first quarter of 2007. Further units are scheduled for deliveries during 2007 and new orders are expected for about 30-40 sets with deliveries over the next four years.

We introduced a new test system for the helicopter's flight computer and the other avionics units which generated an order for the first unit in 2004. This system was designed and built during 2005 and during 2006 we began the testing with the various units it will be integrated with. We expect to deliver the first order during the first quarter of 2007. We are expecting its successful launch to generate several follow up orders within the next twelve months of about 10 additional units for deliveries during 2007 and 2008.

During 2004 we also started to design a small airborne multiple-output power supply specially designed for attack payloads. It uses a proprietary technology that was developed in-house implementing a planar switching transformer which enables further miniaturization and a higher output power to size ratio. This new line has been well received by our customers, and the first samples has already passed the stringent military screening tests. As of the end of 2005, we received our first orders in the amount of $240,000 and part of this order has been delivered during the 4th quarter of 2005. During 2006 delivered about 100 pcs and received orders for about 200 pcs.

During 2005 we introduced a laser system and driver for Airborne Targeting Pods, utilizing laser designation of targets. This is a new entry into the field of high-tech, high accuracy and high power military lasers. Our innovative and unique design is based on a state of the art high-power laser diode which provides high accuracy and long range detection and tracking of targets. This project is a turn-key product from the initial electronic and mechanical design up to the production and delivery of the complete system. We have received an order for the first systems with a delivery date staggered over 2006 and 2007. The first 4 prototypes have been delivered during 2006 and following the successful qualification tests we expect to deliver additional 25 pcs during the second quarter of 2007.

During 2005 we introduced a Ground Control System for airborne attack platforms. The system receives data from aircrafts and transmits it in real time. The design was based on an upgraded version of one of ours previous design already proven in the field. We received several orders in the amount of $240,000 and delivered them during 2006.

By the end of 2005 we have introduced a Simulation and Test System for a highly classified defense project. This technologically complex design is being outsourced for the first time, and so was very tentative in progress, however we have already delivered the first batch in December of 2005 resulting in revenues of about $1,250,000 with a record lead-time of 3 months. During 2006 we received an additional order of about $1,000,000 which has also been delivered. As a result of our success we expect new orders of about same size each during 2007 and the following years.

During 2006 have introduced several new products :

A Generic Test and Validation System for new anti-tank missiles. This system incorporates state of the art hardware and software designs and is used for the tests and validation of about 30 different modules of the missile. The first systems were ordered in the amount of about $1.4 Million dollars with scheduled delivery of the first unit during 2007. During 2006 have received additional order of about $300,000 for the implementation of upgrades. This test system for anti-tank missiles, could generate orders for a couple of units a year for approximately the next ten years.

A Control System for airborne attack platforms for naval application. The system receives data from aircrafts and transmits it in real time. The design was based on upgraded versions of previous designs already proven in the field. We have already received first order for several units scheduled for delivery during 2007.

Generic System for Simulation and Test of multiple stage missiles. This very complex high technology system simulates each stage of the missile and performs a comprehensive suite of test. The first order was received during 2006, which will generate revenues of several hundreds of dollars. During 2007 we expect to deliver two additional systems.

ENERTEC ELECTRONICS

During 2004, we completed UL safety approvals for a new custom-made power supply. It is implemented in a series of modems for fast network access of data and voice over the IP network. In 2005, 1500 units were ordered and 2,000 units were ordered during 2006.

We introduced the first samples of DC/DC converters for military CDU (Command Display Units) in the fourth quarter of 2004. These samples were followed with orders for 1500 pcs which were delivered over the course of 2005 and for 1700 pcs delivered during 2006.

We entered into a new arena of customized power supplies for fast data networking systems. We customized compact PCI power supplies and during 2004 received orders for 200 units. This successful launch resulted in more than 200 units in follow-up orders in 2005 and 100 pcs during 2006.

During 2005 we introduced several new products with long expected lifecycles, which are described below:

We designed a compact, and economical optimized cost/performance redundant power supply for data communication application. The first samples were delivered during 2005 and have already resulted in a follow up order for several hundreds units to be delivered over 2007.

We released and delivered 200 industrial-grade power supplies for air-conditioning systems. The potential follow up for the next eighteen months is in the range of 3000-5000 additional units. There are no follow-up orders, this product was outsourced to a turn-key manufacturer in China.

We designed a customized external power supply for military note-book computers which will be installed by our customers to the US military within the army, navy, air-force etc. The first 25 power supplies have already been delivered and successfully passed all the stringent military qualification tests, followed by orders for additional 260 pcs during 2006.

New projects introduced in 2006:

We have introduced a new multiple output customized power supply for outdoor wireless application and have submitted for UL safety approvals. Upon receiving this approval we expect orders for several hundreds units during 2007.

We have introduced a new medical grade 250W power supply and already received the first order for samples from a big manufacturer of medical equipment.

We have introduced a new line of 150W dc/dc military converters. We have already received orders for first 75 units from four different manufacturers of defense systems

MARKETING STRATEGIES

We market our products to a diverse group of manufacturers of electronic equipment. Our products serve the various needs of local Israeli manufacturers of electronic systems in the following fields:

- Military
- Telecommunications;
- Medical;
- Industrial.

We currently sell only to Israeli companies that, in turn, incorporate our components into their products for resale to the global markets. However, in the future we anticipate creating some kind of platform to market Enertec Systems' products to U.S. companies as well as creating a manufacturing base within the United States so as to benefit from U.S. government dollars directed to Israel's military aid with the condition of being spent on U.S manufactured products. Currently we advertise in all the local Israeli technical magazines and participate in electronic seminars, exhibitions and shows four to six times a year. A substantial part of the business is from our existing customers. Many companies have engaged us from their inception, and have implemented our custom designed solutions. Many of our customers rely on us for technical services, products and support, and consider us to be their own "power supply department" and "ATE systems department". Since 2004 we have been a "systems house" of military systems, making turn-key projects from design to production on behalf of our customers.

We also derive a considerable percentage of our business from word-of-mouth referrals. Our reputation is backed by many years of providing quality products and services. Our marketing strategy has been based on our brand name and reputation, which has grown substantially over the last twenty years, including eight years prior to the formation of Enertec Electronics, when business was conducted under the name "Enertec International."

Over the next 24 months, we plan on continuing our aggressive marketing efforts. Part of our success within Enertec Systems has been to anticipate the needs of our clients, invest in R&D and to start working on products that we believe they will need thus gaining an edge on our competition in our time to market. Furthermore, we have been able to identify those of our clients and potential clients that look poised to get the big orders and focus our attention on gaining a foothold within that client. When successful, this strategy enables us to benefit from the large order flow that they receive both in terms of the typical products they would expect us to produce for them as well as the more sophisticated products that they might not expect that we are then in the perfect position to offer to them, especially if they are inundated with business we are able to step in and ease the burden of some of the non-core components as well as some of the core components.

By continuously diversifying into new and more complex products, Enertec Systems has been able to set itself apart from its competition. In 2006, following the trend we started in 2004, we decided to increase our suite of custom products based on our proprietary design and technology. These products are core components of several long term military programs spearheaded by our customers, with expected purchase lifecycles over periods of up to 10 years.

At Enertec Systems the competitive edge lies with the sophistication and the complex nature of the products. Enertec Electronics however, maintains its competitive advantage primarily through its range of products, their pricing, cost effective adaptation to the customers' needs and the strong technical application support provided to customers.

MARKET CONDITIONS

Enertec Systems

During 2005, the local military market improved significantly resulting in many new orders received which contributed to a backlog of military products totaling $4.5 million dollars. This trend continued through 2006 resulting in a further increase in the backlog, which as of the year ended December 31, 2006 totaled $6.182 Million dollars.

Manufacturers that sell defense end products such as missiles, aircrafts or computers, also provide a support system (e.g., an ATE) to the end-user. The end-user uses this support system for maintenance of the end product. Historically, support systems were made by manufacturers selling the end products. Recently, however, manufacturers have been focusing their resources on the end products rather than on support systems. This has opened up a market for us to develop these systems.

The local Israeli market for ATE's simulators and support systems is estimated at $100 to $200 million annually. We have about 5% of this market, approximately the same level of market penetration as our competitors. This market is largely controlled by big local defense manufacturers. However, there has been a noticeable trend by these and other defense manufacturers to outsource test and support systems to specialized firms so that large manufacturers can focus their resources on designing their core products.

The local market for outsourced custom designed military systems is above $500 million. We have just begun to penetrate parts of this market with products in the field of avionic systems, ruggedized control systems to name but a few. We are actively working to increase our product portfolio. During 2006 have introduced several new military products implemented in high volume long term defense programs.

A key element of our growth potential is our ability to enhance our sales and marketing team. We will need to expand our sales and marketing team significantly over the next several years to achieve our sales targets. We will face significant challenges and risks in building and managing our sales and marketing team, including managing geographically dispersed sales efforts and adequately training our sales people in the use and benefits of our products.

Enertec Electronics

The worldwide market for high-tech, telecommunications, and Internet related products affects the Electronics Division's power supplies sales. The overall market started to improve, during 2005 resulting in an increase of sales to this sector and this trend continued during 2006. Our stability is largely due to our diversified client base. We service clients in the telecommunications, industrial control, medical and the military core business sectors. In addition to this our sales force pays a significant amount of attention to our customer relationships, providing more opportunities to gain our foothold into a contract than our competition does. Furthermore we offer more customized power supplies than our competitors, which, we believe, makes it more difficult for our competitors to bid successfully on the same projects or replace our product down the road in production or for follow on orders.

6

CUSTOMERS

Our customers are mostly local Israeli manufacturers of electronic systems from different segments of the electronics industry, within the military, industrial, commercial, medical, and telecommunications fields. Due to this level of diversification of our customers, we are not that dependent on any one specific market segment; so our overall performance is less affected by fluctuation in the markets. Until 2003 IAI (Israel Aircraft Industries) was our major customer representing approx 38% of our sales. During 2004, we realized that several Rafael divisions were receiving an increasingly high number of new orders as a result of their aggressive marketing around the world but that they had not increased their technical and manufacturing staff to accommodate this growth. We positioned ourselves to become their outsourcing team for their new orders in the areas of design, engineering and production. We increased our investment in R&D that resulted in new designs and products that enabled us to successfully bid on a large number of projects. During 2004, we focused our efforts in diversifying our sales across other technologies, for example avionic equipment and combat stations. This resulted in increased sales to Rafael comprising approximately 25% of our total sales in 2004 as compared to 10% in 2003. By the end of 2005 Rafael became our major customer representing approximately 40% of our total sales.

Investing in R&D has given us an edge with our time to market which resulted in several agreements, with Rafael bringing out products utilizing our systems within long project cycles, in many cases up to 10 years. This has created a significant increase in the backlog of orders from Rafael. By the end of 2006 Rafael accounted for 32.1% of our total sales.

In 2004 Israeli Aircraft Industry (IAI) accounted for approximately 18% of our sales. During 2005, IAI started to design and manufacture a range of new products for which we have been asked to provide Test Equipment, Simulators and Support Systems We have received several new orders for the first units delivered during 2006 and have worked on a large number of new proposals which have resulted in an increase of our sales to IAI's as a percentage of our total sales in 2006 to 16.6%.

The rest of our sales are pretty much evenly spread between our other main customers: Elbit, El-Op and Tadiran Spectralink, at the military field and a very large number of customers at the commercial field.

BACKLOG

As of December 31, 2006, we had a backlog of orders for our products and services in the amount of approximately $6,917,000; as compared to a backlog of approximately $4,500,000 as of December 31, 2005. The increase of approximately 54% in the backlog as of December 31 2006 compared to December 31 2005 is mainly due to our efforts to introduce new products to Rafael and IAI. During the second half of 2005 and during 2006 our success resulted in a significant increase in orders for military systems in particular a big increase in orders from several of Rafael's divisions.

The orders included in the December 31, 2006 backlog figure are as follows:

Enertec Systems

$4,365,000	representing airborne power supplies, laser systems, flight computers and test systems for avionics and military systems

1,390,000	representing test systems for IAI missiles and avionic systems
202,000	representing airborne power supplies and test systems for infra-red payloads
217,000	representing data link test equipment.
8,000	representing medical systems
$6,182,000	TOTAL backlog for Enertec Systems

Enertec Electronics

$735,000	This figure includes a variety of orders for commercial, telecom, medical, industrial and military off-the-shelf power supplies as well as several orders for standard test equipment for both the commercial and military industry.

COMPETITION

ENERTEC SYSTEMS

Our chief source of competition for Enertec Systems is our clients themselves. Most of our clients have done their own testing systems and core component manufacturing in house. But as their volume of sales start increasing it is easier for us to provide an outsourcing capability for them. Furthermore as we continue to prove our expertise and our clients allow us to create increasingly complex products for them, we have started to build their trust and are overtaking a lot of the functions that previously they would have produced in house. Outside competitors that we face are: Chaban Electronics Ltd, Symcotech Ltd, and Rada Electronic Industries ltd.

ENERTEC ELECTRONICS

We face intense competition within Enertec Electronics from the existing manufacturers and distributors of electronic components and products. Presently, several competing companies that have greater resources than we do, such as financial, operational, sales, marketing, and research and development resources, are actively engaged in the manufacture and distribution of electronic components and products. Our main competitors include Advice Electronics Ltd.,EDCO,Nemic Lambda,Dan-El, Bruno InternationalAppletec Ltd., Migvan Technologies Ltd., Boran Technologies Ltd., Telkoor Power Supplies Ltd., Nisko and Horizon Electronics Ltd.

However, we have been able to compete effectively with these companies for the following reasons:

· Our power supplies are good quality, economically priced , and are backed by-a good level of technical expertize engineers, who have an understanding of our customer's requirements, allowing us to provide cost-effective solutions.

· We have comprehensive experience in power supply test equipment , which enables our sales people to propose the most cost-effective testing solutions, incorporating the highest grade of software and the most sophisticated hardware.

· We maintain a strong technical team that provides solutions to our customers' needs within our target niche.

· Our products are sold in diversified activity fields, namely commercial, industrial, military, medical, systems and components.

Our products have been incorporated into several high volume production projects with long-term purchasing agreements of up to two years. Since our customers' products are sold intermittently but in high volume, our customers place long-term orders with us to cover their production needs over a period of several months to up to a year to ensure delivery in a timely fashion. Additionally, we are a major supplier to several providers of telecom, datacom, video on demand and video conferencing. Due to the significant approval process these products must pass to get to the market, it is not cost effective to replace our component with a perhaps cheaper competitor's product because they would have to resubmit the product for re-approval with the new component inside.

SUPPLIES AND SUPPLIERS

Our suppliers are diversified and we are not dependent upon a limited number of suppliers for essential raw materials, energy or other items. The manufacturers that supply to us are all established companies with facilities and products in compliance with all relevant international standards. However, while we are not dependent on any one supplier, disruptions in normal business arrangements by the loss of one or a few suppliers could cause possible short-term losses. These disruptions may be experienced if our existing suppliers are no longer able to meet our requirements. They may also occur if there is an industry shortage of electronic or mechanical components. Not only could these disruptions affect our product line and limit our production capacity, but also, in relation to the shortage of components, could result in higher costs due to the supply shortage or the need to use higher cost substitute components.

The raw materials we use are either electronic components or mechanical components. The electronic components are purchased from suppliers and the mechanical components are mainly manufactured by local subcontractors.

EMPLOYEES

As of December 31, 2006, Enertec Electronics had 11employees and Enertec Systems had 51 employees. All technical employees must sign a two-year confidentiality agreement and a two-year non-compete agreement, which prohibits our employees, if they cease working for us, from directly competing with us or working for our competitors. However, Israeli courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer, such as the secrecy of a company's confidential commercial information or its intellectual property. We may not be able to demonstrate that harm would be caused to us, and therefore, may be unable to prevent our competitors from hiring and benefiting from the expertise of our former employees. None of our employees are subject to a collective bargaining agreement. We do not employ any supplemental benefits or incentive arrangements for our officers or employees. All of our employees are full-time. Management considers its employee relations to be good.

RESEARCH AND DEVELOPMENT EXPENDITURES

Research and Development costs totaled approximately $399,000 and $379,000 for the twelve months ended December 31, 2006 and 2005, respectively, which equates to approximately 5.1% and 5.2% of revenues, respectively, for both periods. These expenditures have adequately satisfied our research and development requirements.

The increase of our R&D expenditures as compared to 2005 is a result of our strategic move to develop new technologies such as airborne high power laser targeting systems and other classified technologies which allowed us to form long term strategic alliances with several big military programs.

SEASONAL ASPECTS OF OUR BUSINESS

The sales of military products experience seasonal variations this is due to the fact that the Israeli Ministry of Defense frequently delays the release of budgets near the end of the fiscal year. Therefore new orders to the military industry are delayed, leading to delays of orders to the local subcontractors. When this happens it negatively affects the sales volume of the 1st quarter of the year. In addition, some of our customers push for increased deliveries during the last weeks of the year in order to fulfill contractual delivery obligations to their customers and also to show better business results. This often causes an upward spike in our fourth quarter sales.

PATENTS AND TRADEMARKS

We are not dependent on patents or trademark protection with regards to the operation of our business and do not expect to be at any time in the future.

GOVERNMENT REGULATION

Every electronic product must comply with the UL standards of the United States and CE standards of Europe to be eligible for sale in the respective countries subject to these standards. Every system must be tested, qualified and labeled under the relevant standards. This is a complicated and expensive process and once completed, the approved product may not be altered for sale.

ITEM 2. DESCRIPTION OF PROPERTY.

We currently maintain plants in both Haifa and Carmiel. We have no plans to secure more space, as we believe both locations are suitable for our needs.

Our Haifa plant is 400 square meters and includes a production hall and management offices. We lease this property for $27,165 per annum from Mund Holding Limited, an entity wholly owned by our President and Chief Executive Officer, Harry Mund. We entered into this lease in January 2001. The Haifa plant houses the headquarters and accounting offices, the imports department, sales and administration employees, application engineers, and a service laboratory. This plant is suitable for our present and near future needs. There is enough space to accommodate an additional two to four sales engineers, if needed. This space is also used to sell standard power supplies products.

Our Carmiel plant is 800 square meters and also includes a production hall, with a research and development and engineering facility for our Systems Division. The Carmiel property is leased at $35,960 per annum. We use the Carmiel plant for manufacturing. It houses engineers, software programmers, electronic hardware designers, mechanical designers, and electronic and mechanical assembly personnel. It consists of office rooms for one to three people, and contains one room for electronics assembly, one for mechanical assembly, and two for final testing of finished products. The Systems Division manufactures its customized products in this facility, and accordingly, it is not a plant for high volume production. It is located in the Carmiel industrial area, and is in close proximity to many of our Systems Division clients. Every engineer has individual workstations, which contain computers that are inter-connected by our own local network for fast communication. The plant has been updated to satisfy all our present and near future needs. In this facility, there is space for five additional offices, which would accommodate approximately 15 more people, and the existing assembly rooms could accommodate eight to ten additional workers.

ITEM 3. 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.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

MARKET INFORMATION

Our common stock began quotation on the OTC Bulletin Board on June 1, 2004 under the symbol LPST.OB. For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

	Fiscal 2006		Fiscal 2005	
Fiscal Quarter	High	Low	High	Low
First Quarter Ended March 31	$ 1.11	$ 1.01	$ 1.11	$ 1.11
Second Quarter Ended June 30	$ 1.11	$ 1.01	$ 1.11	$ 0.25
Third Quarter Ended September 30	$ 1.11	$ 1.01	$ 0.40	$ 0.40
Fourth Quarter Ended December 31	$ 1.11	$ 1.01	$ 1.05	$ 0.40

HOLDERS

As of March 21, 2007, we had 6,483,000 shares of common stock outstanding and such shares were held by approximately 42 stockholders of record. The transfer agent of our common stock is Continental Stock Transfer and Trust Company.

DIVIDENDS

We have not declared any dividends to date. We have no present intention of paying any cash dividends on our common stock in the foreseeable future, as we intend to use earnings, if any, to generate growth. The payment by us of dividends, if any, in the future, rests within the discretion of our Board of Directors and will depend, among other things, upon our earnings, our capital requirements and our financial condition, as well as other relevant factors. There are no restrictions in our articles of incorporation or bylaws that restrict us from declaring dividends.

RECENT SALES OF UNREGISTERED SECURITIES

During the fiscal year ended December 31, 2006 we did not issue any securities without registration under the Securities Act of 1933, as amended (the "Securities Act").

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

FORWARD-LOOKING STATEMENTS

The information in this annual report contains forward-looking statements. All statements other than statements of historical fact made in this report are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations.

The following discussion and analysis should be read in conjunction with the financial statements of Lapis Technologies, Inc. included herewith. 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 of our management.

LIQUIDITY AND CAPITAL RESOURCES

Our cash balance at Dec 31, 2006 has decreased compared to the cash balance at Dec 21,2005 As of December 31, 2006, our cash balance was $7,000 as compared to $78,000 at December 31, 2005. The decrease in cash was mainly due to the increase in the time needed to collect our accounts. Total current assets at December 31, 2006 were $8,047,000 as compared to $6,601,000 at December 31, 2005. The increase in current assets is mainly due to the increase in accounts receivables and an increase in inventories

Our accounts receivable at December 31, 2006 was $4,677,000 as compared to $3,712,000 at December 31, 2005. This increase is attributable to an increase in sales of $570,000 in 2006 as compared to the sales of 2005,an increase in collection time and the decrease in USD/Shekel exchange rate since the receivables are in Shekels. The USD/shekel exchange rates decreased by 8.21% from 4.603 as of Dec 2005 to 4.225 as of Dec 2006.

As of December 31, 2006 our working capital was $1,310,000 as compared to $1,087,000 at December 31, 2005. The increase in the working capital is mainly due to a larger increase in receivables and inventories than the increase in total bank debt and in accounts payable.

Bank Leumi and Bank Hapoalim have extended us a combined total bank debt of $4,139,000 in 2006 as opposed to $3,316,000 at December 31,2005. This debt is made up of a number of different components: short-term debt, long-term debt and in the form of lines of credit, which we use from time to time to satisfy our temporary cash flow needs. Bank Leumi has provided us with $3,352,000of total debt based on our pledge of $2,600,000 of our working capital and customers' receivables due from Israeli Aircraft Industry, Rafael and Tadiran Spectralink Ltd , and $752,000 by the pledge of some of the financial assets of our president, Harry Mund. Bank Hapoalim has provided us with $788,000 of total debt based on our pledging of $543,000 of our customers' receivables due from USR, Expand Tadiran Spectralink Ltd and Rad and $245,000 by the pledging of some of the financial assets of Mr. Mund. Mr. Mund has personally on deposit with our banks monies in excess of $1,000,000 which he has pledged as collateral against our bank debt.

The current portion of our term loans at December 31, 2006 consisted of $271,000 compared to $118,000 at December 31, 2005. Our total short-term loans consisted of $2,061,000 of short-term loans and $271,000 of current portion of long-term debt broken down as follows:

$282,000 due March 2007, $144,000 due April 2007, $417,000 due June 2007, $1,225,000 due July 2007, $192,000 due September 2007, $72,000 due December 2007.

At December 31, 2006, our total bank debt was $4,139,000 as opposed to $3,316,000 at December 31, 2005. These funds were borrowed as follows:

$2,332,000 which includes the current portion of long term debt, as various short term bank loans due through 2007, $318,000 of long-term debt due through March 2010 and $1,489,000 borrowed using our bank lines of credit. As a result, we increased the amount borrowed for the year ended December 31, 2006 by $823,000 from $3,316,000. The increase in bank debt is mainly due to the increase in account receivables and the decrease in USD/Shekel exchange rate since the loans are in Shekels. The USD/shekel exchange rates decreased by 8,21%, from 4,603 as of Dec 2005 to 4,225 as of Dec 2006.

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 December 31, 2006 we are current with all of our bank debt and compliant with all the terms of our bank debt.

At December 31, 2006, Mr. Mund had receivables from the Company in the amount of $6,000 as compared to $6,620 at December 31, 2005.

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. 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

FISCAL YEAR ENDED DECEMBER 31, 2006 COMPARED TO FISCAL YEAR ENDED DECEMBER 31, 2005

For the fiscal year ended December 31, 2006 we had total revenue of $7,839,000 compared to revenue of $7,269,000 for the fiscal year ended December 31, 2005. The increase in revenue of $570,000, or 7.8% is due to:

1.The overall improvement of the market in particular in field of the high-tech,telecomm and internet related products resulting in an increase in sales to these sectors.

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

Gross profit totaled $ $2,163,000 for the fiscal year ended December 31, 2006 as compared to $2,008,000 for the fiscal year ended December 31, 2005, an increase of $ $155,000 or 7.7%. Gross profit as a percentage of sales for the fiscal year ended December 31, 2006 was 27.6% as compared to 27.6% for the fiscal year ended December 31, 2005. The increase in gross profit is mainly due to the increase in sales.

Total operating expenses are comprised of R&D costs, selling, general and administrative expenses. Operating expenses for the fiscal years ended December 31, 2006 and 2005 were $1,735,000 and $1,770,000 respectively, a decrease of $35,000 or 2.0%. The decrease in operating expenses is attributable to the following factors:

increased R&D spending of $20,000; increased marketing and selling expenses of $30,000 as a result of our efforts to develop the market for our new products and a decrease in G&A expenses of $85,000 mainly due to decreased professional services expenses.

We experienced a loss of $115,000 in the fiscal year ended December 31, 2006 compared to a loss of $48,000 in the fiscal year ended December 31, 2005. This decrease in net income in the amount of $67,000 or 140% is mainly due to the increase of $109,000 in interest expenses and increase of $131,000 in provisions for income tax ,partly compensated by the increase in income from operations of $190,000.

As detailed in this annual report, our business is comprised of Enertec Electronics which derives its revenues from the commercial arena and from standard military power supplies that it sells to the military industry.

For the fiscal year ended December 31, 2006, Enertec Electronics' revenue, costs of sales and gross profits were $3,262,000, $2,602,000 and $660,000 respectively, and $2,734,000, $2,048,000, and $686,000 respectively for the fiscal year ended December 31, 2005. Revenue increased $528,000 or 19.3%. Costs of sales increased approximately by $554,000 or 27.1% Gross profit decreased by $26,000 or 3.8% due to higher cost of sales.

For the twelve months ended December 31, 2006, revenues, costs of sales and gross profits from Enertec Systems 2001 were $4,577,000 and $3,075,000 and $1,502,000 respectively, and $4,535,000, $3,213,000 and $1,322,000 respectively for twelve months ended December 31, 2005. Compared to 2005, revenue increased by $42,000 or 0.9% as a result of the successful penetration to new customers with new products.

Cost of sales decreased approximately $138,000 or 4.3% due to increase in sales of some of the products introduced previously. The manufacturing cost of repeat orders is typically lower as compared to the cost of first orders previously received. Gross Profit increased by $180,000 or 13.6% due to lower cost of sales involved with manufacturing of repeat orders December 31, 2006, we had two customers that accounted for approximately 69.9% of accounts receivable. For the years ended December 31, 2006 and 2005, approximately 48.7% and 57% 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, 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 years ended December 31, 2006 and 2005 revenue relating to service contracts is less than one percent of net sales.

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 years ended December 31, 2006 and 2005 were approximately $399,000 and $379,000, 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 December 31, 2005 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 December 31, 2005. The carrying value of the long-term debt approximate fair value at December 31, 2005 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 7. FINANCIAL STATEMENTS.

All financial information required by this Item is attached hereto at the end of this report beginning on page F-1 and is hereby incorporated by reference.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

N/A

ITEM 8A. CONTROLS AND PROCEDURES.

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

ITEM 8B. OTHER INFORMATION.

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

The members of our board of directors and our executive officers, together with their respective ages and certain biographical information are set forth below. Our directors receive no compensation for their services as board members but are reimbursed for expenses incurred by them in connection with attending board meetings. All directors hold office until the next annual meeting of our stockholders and until their successors have been duly elected and qualified. Our executive officers are elected by, and serve at the designation and appointment of, the board of directors. There are no family relationships among any of our directors or executive officers.

Name	Age	Position
Harry Mund	59	Chairman of the Board, Chief Executive Officer, President and Secretary
Miron Markovitz	59	Director, Chief Financial Officer and Principal Accounting Officer

The following is a brief account of the business experience of each of our directors and executive officers during the past five years or more.

HARRY MUND, our Chairman of the Board, Chief Executive Officer, President and Secretary since our inception, and has been the Chief Executive Officer and President of our subsidiary, Enertec Electronics Limited, since 1987. Mr. Mund is also the Chief Executive Officer and managing director of Enertec Management Limited (f/k/a Elcomtech Limited), a wholly owned subsidiary of Enertec Electronics Limited. From 1983 to 1987, Mr. Mund was the President and Chief Executive Officer of Enercon International, a marketing and sales firm of military and commercial power supplies and test equipment. Enercon International's activities were transferred to Enertec International in 1987, which subsequently became Enertec Electronics Limited in 1992. From 1975 to 1983, Mr. Mund worked for Elbit Systems as a design engineer of advanced test systems and as the head of the ATE engineering group. Mr. Mund attended Ben-Gurion University from 1970 to 1974 and earned a Bachelor of Science as an Electronic Engineer.

MIRON MARKOVITZ, a Director, our Chief Financial Officer and Principal Accounting Officer since our inception, has been the Chief Financial Officer of our subsidiary, Enertec Electronics Limited, since 1992, responsible for its accounting and financial management. He attended Haifa University from 1975 to 1978 and earned a BA in economics and accounting.

DIRECTOR COMPENSATION:

During 2006, our directors did not receive any compensation for serving on our board.

SIGNIFICANT EMPLOYEES

The following is a brief description of the business experience of each of our significant employees:

ZVI AVNI, age 45, was the System Division Manager for our subsidiary, Enertec Electronics Limited, from February 1997 to January 2002. His responsibilities included the design and manufacture of automatic test systems. Mr. Avni has 18 years of experience with ATE systems for the military market and worked at Elbit Systems for 12 years as an ATE group leader. Since January 2002, Mr. Avni has worked for Enertec Systems 2001 Ltd., which is owned by Enertec Management Limited 73 % and Harry Mund (27%) and continues to be responsible for the design and manufacture of the Automatic Test Systems and military systems. Mr. Avni graduated from Haifa Technion Institute of Technology in 1982 and earned a degree as a Practical Electronic Engineer.

YAAKOV OLECH, age 57, has been employed by our subsidiary, Enertec Electronics Limited, since March 1991. Mr. Olech is head of our customer service electronic lab and technical support, providing after-sales customer support and repair services for products under warranty or by utilizing service contracts for repair of power supplies. He attended Radiotechnical Institute, Minsk, USSR from 1976 to 1979 and has earned a Master in Science in electronic engineering.

DR. ALEXANDER VELICHKO, age 60, has 28 years of experience as leading research and development engineer and head of the research and development group at several companies. From 1981 to 1990, he was a lecturer of electronics and automation at the Engineering Institute, Karatau, Kazahtan. From 1990 to 1999, Dr. Velichko was chief engineer of the Laboratory of Electronics and Automatization Karatau, Kazakhtan, responsible for development of compact analog/digital measurement devices. Since February 2000 he has been Enertec Electronics Limited's chief scientist and head of research and development. Dr Velichko is responsible for the design of custom-made power supplies. He earned a PhD in Automatic Control at the Moscow Institute of Mining, which he attended from 1964 to 1969, and earned a Master in Science at Tomsk Institute of Electronic Engineering.

Our future success depends, in significant part, on the continued service of Mr. Mund, and certain other key executive officers, managers, and sales and technical personnel, who possess extensive expertise in various aspects of the our business, including Mr. Markovitz, Mr. Avni, Mr. Olech, and Dr. Velichko. We may not be able to find an appropriate replacement for any of our key personnel. Any loss or interruption of our key personnel's services could adversely affect our ability to implement our business plan. It could also result in our failure to create and maintain relationships with strategic partners that are critical to our success. We do not presently maintain key-man life insurance policies on any of our officers.

AUDIT COMMITTEE FINANCIAL EXPERT

We do not have an audit committee financial expert, as that term is defined in Item 401 of Regulation S-B. We have not been able to identify a suitable nominee to serve as an audit committee financial expert.

CODE OF ETHICS

We have adopted a Code of Ethics and Business Conduct for Officers, Directors and Employees that applies to all of our officers, directors and employees. The Code of Ethics is filed as Exhibit 14.1 to our annual report on Form 10-KSB for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission on June 28, 2004. Upon request, we will provide to any person without charge a copy of our Code of Ethics. Any such request should be made to Attn: Harry Mund, C/O Ira Strassberg, Rogoff and Company, 275 Madison Avenue, NY, NY, 10016. Our telephone number is (212) 937-3580.

SECTION 16(A) BENEFICIAL OWNERSHIP COMPLIANCE

We do not have affiliated persons required to file reports under Section 16(a) of the Exchange Act.

ITEM 10. EXECUTIVE COMPENSATION.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following information is furnished for the years ended December 31, 2006 and 2005 for our principal executive officer. No executive officer other than Mr. Mund received total annual compensation in excess of $100,000, during fiscal 2006 and 2005.

Name and Principal Position	Year	Salary $	Bonus $	Stock Awards $	Option Awards $	Non-Equity Incentive Plan Compensation $	Nonqualified Deferred Compensation Earnings $	All Other Compensation $	Total $
Harry Mund	2006	$ 288,000	____	____	____	______	_______	$ 38,000*	326,050
Chief Executive Officer and President	2005	$ 261,000	0	____	0	______	0	40,000*	$ 301,000

*Represents compensation in lieu of accrued vacation and recreation days pursuant to Company policies. In Israel it is customary to offer financial compensation in lieu of vacation and recreation days (days set aside for employees to enjoy recreational activities)

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information, as of March 21, 2007 with respect to the beneficial ownership of the outstanding common stock by (i) each person known by us to be the beneficial owner of more than 5% of our common stock; (ii) each of our directors; (iii) each of our executive officers; and

(iv) our executive officers and directors as a group. Unless otherwise indicated, the persons named in the table below have sole voting and investment power with respect to the number of shares indicated as beneficially owned by them. The address for each of the below persons is c/o Enertec Electronics Limited, 27 Rechov Ha'Mapilim, Kiriat Ata, Israel, P.O. Box 497, Kiriat Motzkin 26104, Israel.

Name of Beneficial Owner	Number of Shares Beneficially Owned *	Percentage Ownership *
Harry Mund	4,750,000	73.3%
Miron Markovitz	9,000	*%
Zvi Avni	1,000,000	15.4%
All Directors and Executive Officers as a Group (2 persons)	4,759,000	73.44%

· Applicable percentage ownership is based on 6,483,000 shares of common stock outstanding as of March 21, 2007, together with securities exercisable or convertible into shares of common stock within 60 days of March 21, 2007 for each stockholder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of March 21, 2007 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table shows information with respect to each equity compensation plan under which the Company's common stock is authorized for issuance as of the fiscal year ended December 31, 2006.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	-0-	-0-	500,000
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	-0-	-0-	500,000

2002 STOCK OPTION PLAN

We adopted, subject to stockholder approval, our 2002 Stock Option Plan on October 16, 2002. Our stockholders approved the plan on October 16 2002. The plan provides for the grant of options intended to qualify as "incentive stock options", options that are not intended to so qualify or "nonstatutory stock options" and stock appreciation rights. The total number of shares of common stock reserved for issuance under the plan is 500,000, subject to adjustment in the event of a stock split, stock dividend, recapitalization or similar capital change, plus an indeterminate number of shares of common stock issuable upon the exercise of "reload options" described below. We have not yet granted any options or stock appreciation rights under the plan.

The plan is administered by our board of directors, which will select the eligible persons to whom options shall be granted, determines the number of common shares subject to each option, the exercise price therein and the periods during which options are exercisable, interprets the provisions of the plan and, subject to certain limitations, may amend the plan. Each option granted under the plan shall be evidenced by a written agreement between us and the optionee.

Options may be granted to our employees (including officers) and directors, any of our subsidiaries, and certain of our consultants and advisors. Incentive stock options can be issued to all employees (including officers). Nonstatutory stock options can be issued to employees, non-employee directors, or consultants and advisors.

The exercise price for incentive stock options granted under the plan may not be less than the fair market value of the common stock on the date the option is granted, except for options granted to 10% stockholders which must have an exercise price of not less than 110% of the fair market value of the common stock on the date the option is granted. The exercise price for nonstatutory stock options is determined by the board of directors, in its sole discretion, but may not be less than 85% of the fair market value of the Company's common stock at the date of grant. Incentive stock options granted under the plan have a maximum term of ten years, except for 10% stockholders who are subject to a maximum term of five years. The term of nonstatutory stock options is determined by the Board of Directors. Options granted under the plan are not transferable, except by will and the laws of descent and distribution.

The board of directors may grant options with a reload feature. Optionees granted a reload feature shall receive, contemporaneously with the payment of the option price in common stock, a right to purchase that number of common shares equal to the sum of (i) the number of shares of common stock used to exercise the option, and (ii) with respect to nonstatutory stock options, the number of shares of common stock used to satisfy any tax withholding requirement incident to the exercise of such nonstatutory stock option.

Also, the plan allows the board of directors to award to an optionee for each share of common stock covered by an option, a related alternate stock appreciation right, permitting the optionee to be paid the appreciation on the option in lieu of exercising the option. The amount of payment to which an optionee shall be entitled upon the exercise of each stock appreciation right shall be the amount, if any, by which the fair market value of a share of common stock on the exercise date exceeds the exercise price per share of the option.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Our management believes the terms of each of the below transactions are at least as favorable as could be obtained from unrelated third parties.

During 2001, our subsidiary Enertec Electronics Limited sold a building to Mund Holding Limited, an entity wholly owned by Harry Mund, our Chief Executive Officer and President, for approximately $170,320. An independent appraiser and governmental body, The Capital Gains Authority, determined the sale price. The building was paid in part with cash in the amount of $93,245, and the balance by a non-interest bearing loan. There are no written agreements setting forth repayment terms. The parties have orally agreed that the amount outstanding is due on demand. As of December 31, 2006, the amount of the loan outstanding was $72,186.

Enertec Electronics rents the building's office and manufacturing space from Mund Holding Limited for $27,165 annually for twenty-four months ending December 31, 2007. Neither of our directors are independent.

ITEM 13. EXHIBITS.

Exhibit Number	Description
3.1	Certificate of Incorporation of Enertec Electronics, Inc. filed January 31, 2002 (Incorporated by reference to our registration statement on Form SB-2 (File No. 333-100979), filed with the Securities and Exchange Commission on November 4, 2002)
3.2	Certificate of Amendment of Enertec Electronics, Inc. filed April 23, 2002 (Incorporated by reference to our registration statement on Form SB-2 (File No. 333-100979), filed with the Securities and Exchange Commission on November 4, 2002)
3.3	Certificate of Amendment of Opal Technologies, Inc. filed October 17, 2002 (Incorporated by reference to our registration statement on Form SB-2 (File No. 333-100979), filed with the Securities and Exchange Commission on November 4, 2002)
3.4	By-Laws of Lapis Technologies, Inc. (Incorporated by reference to our registration statement on Form SB-2 (File No. 333-100979), filed with the Securities and Exchange Commission on November 4, 2002)
10.1	Letter dated February 22, 2005 confirming the terms of share purchase (Incorporated by reference to our current report on Form 8-K filed with the Securities and Exchange Commission on August 23, 2005)
14.1	Code of Ethics (Incorporated by reference to our annual report on Form 10-KSB for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission on June 28, 2004)

16.1	Letter from Rogoff & Company dated April 1, 2004 (Incorporated by reference to our current report on Form 8-K filed with the Securities and Exchange Commission on July 6, 2004)
21.1	List of Subsidiaries
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

Item 14. Principal Accountant Fees and Services.

AUDIT FEES

The aggregate fees billed for professional services rendered by our principal accountants for the audit of our financial statements, for the reviews of the financial statements included in our annual report on Form 10-KSB, and for other services normally provided in connection with statutory filings were $12,185 and $11,500 for the years ended December 31, 2006 and 2005, respectively.

AUDIT-RELATED FEES

We incurred fees of $24,200 and 28,853 for the years ended December 31, 2006 and 2005, respectively, for professional services rendered by our principal accountants that are reasonably related to the performance of the audit or review of our financial statements and not included in "Audit Fees."

TAX FEES

The aggregate fees billed for professional services rendered by our principal accountants for tax compliance, tax advice, and tax planning were 1,500 and $1,500 for the years ended December 31, 2006 and December 31, 2005, respectively. The services for which such fees were paid consisted of filing our tax returns for 2006 and 2005.

ALL OTHER FEES

We did not incur any fees for other professional services rendered by our principal accountants during the years ended December 31, 2006 and December 31, 2005.

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

Our Board of Directors acts as our audit committee, and consults with respect to audit policy, choice of auditors, and approval of out of the ordinary financial transactions.

SIGNATURES

In accordance with Section 13 or 15(d) 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: March 30, 2007 By: /s/ Harry Mund

Harry Mund
Chief Executive Officer

Date: March 30, 2007 By: /s/ Miron Markovitz

Miron Markovitz
Chief Financial Officer and
Principal Accounting Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Harry Mund Harry Mund	Chief Executive Officer and Chairman of the Board	March 30, 2007
/s/ Miron Markovitz Miron Markovitz	Director, Chief Financial Officer and Principal Accounting Officer	March 30, 2007

Gvilli & Co. C.P.A. (isr.)

Independent Auditors' Report

To the Stockholders' and the Board of Directors of Lapis Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Lapis Technologies, Inc. and Subsidiaries (the "Company") at December 31, 2006, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Lapis Technologies, Inc. and Subsidiaries at December 31, 2006, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Gvilli and Co.

Gvilli & Co.
March 29, 2007
Casarea, Israel

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

		December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$	7
Accounts receivable		4,677
Inventories		2,969
Prepaid expenses and other current assets		406
Due from stockholder		(12)
Total Current Assets		8,047
Property and equipment, net		299
Deferred income taxes		22
	$	8,368
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Bank line of credit	$	1,489
Short term bank loans		2,061
Current portion of term loans		271
Accounts payable and accrued expenses		2,767
Due to affiliates		149
Income taxes payable		-
Total Current Liabilities		6,737
Term loans, net of current portion		318
Severance payable		84
		7,139
Commitments and contingencies		
Minority interest		333
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		(30)
Retained Earnings		842

Total Stockholders' Equity		896
	$	8,368

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

F-2

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

	Years Ended December 31, 2006	Years Ended December 31, 2005
Sales	7,839	7,269
Cost of sales	5,676	5,261
Gross profit	2,163	2,008
Operating Expenses:		
Research and development expenses	399	379
Selling expenses	110	80
General and administrative	1,226	1,311
Total operating expenses	1,735	1,770
Income from operations	428	238
Other Income (Expense):		
Interest expense, net	(378)	(269)
Other income	6	-
Total other income (expense)	(372)	(269)
Income (loss) before provision for income taxes and minority interest	56	(31)
Provision for income taxes	134	3
Minority interest	(37)	(14)
Net loss	$ (115)	$ (48)
Basic net loss per share	$ (0.02)	$ (0.01)
Basic weighted average common shares outstanding	6,483,000	5,902,178

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

LAPIS TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands, Except Share Amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders Equity	Comprehensive Income
Balance, January 1, 2005	5,483,000	5	78	(121)	990	952	
Foreign currency translation adjustment	-			1		1	1
Acqusition of additional interest in subsidiary	1,000,000	1				1	
Net income	-				(48)	(48)	(48)
Balance, December 31, 2005	6,483,000	6	78	(120)	942	906	$ (47)
Foreign currency translation adjustment				90	15	105	$ 105
Net income (loss)					(115)	(115)	(115)
Balance, 12-31-06	6,483,000	6	78	$ (30)	$ 842	$ 896	$ (10)

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

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

	Years Ended December 31, 2006	2005
Cash flows from operating activities:		
Net income	(115)	$ (48)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	84	148
Minority interest	59	(153)
Gain on sale of property and equipment	(10)	-
Deferred income tax	(6)	4
Change in operating assets and liabilities:		
Accounts receivable	(965)	(1,168)
Inventories	(534)	(161)
Prepaid expenses and other current assets	(30)	81
Accounts payable and accrued expenses	564	814
Income taxes payable	-	(179)
Severance payable	26	(1)
Net cash used in operating activities	(927)	(663)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	69	-
Purchase of property and equipment	(130)	(46)
Decrease in due from stockholder	4	355
Decrease in due from affiliates	82	83
Net cash (used in) provided by investing activities	25	392
Cash flows from financing activities:		
Increase (decrease) in bank line of credit, net	180	607
Proceeds from long term debt	3,880	2,926
Repayment of long-term debt	(3,237)	(3,244)
Net cash provided by financing activities	823	289
Effects of exchange rates on cash	8	(64)
Increase (decrease) in cash	(71)	(46)
Cash, beginning of period	78	124
Cash, end of period	$ 7	$ 78

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

F-5

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

	Years Ended December 31, 2006		Years Ended December 31, 2005	
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$	372	$	269
Income taxes	$	201	$	96
Supplemental disclosure of non-cash financing activities:				
Common stock issued for services	$	-	$	-

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

F-6

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

(In Thousands, Except Share and Per Share Amounts)

NOTE 1 - DESCRIPTION OF BUSINESS AND ACQUISITION

Lapis Technologies, Inc. (the "Company") was incorporated in the State of Delaware on January 31, 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.

On January 1, 2002 Enertec assisted in the organization of Systems in exchange for 25% of the common stock of Systems. This investment was accounted for under the equity method. Systems is engaged in the manufacturing of electronic components primarily for military use. On December 31, 2002 Enertec increased its common stock ownership interest in Systems to 55% for $71, which was included in accounts payable and accrued expenses in the accompanying consolidated balance sheet at December 31, 2002. This amount was paid during January 2003.

NOTE 2 - BASIS OF PRESENTATION

The accompanying consolidated financial statements present the results of operations of the Company for the years ended December 31, 2006 and 2005 and their wholly owned subsidiary Enertec Electronics Ltd. and their ownership interest in Enertec Systems 2001 Ltd. All material intercompany accounts and transactions have been eliminated in consolidation.

NOTE 3 - SUMMARY OF SIGNIFICANT 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.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and Cash Equivalents

For the purpose of the statement of cash flows the Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Allowance for Doubtful Accounts

The Company estimates uncollectibility of accounts receivable by analyzing historical bad debts, customer concentrations, customer credit worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. At December 31, 2006 the Company has not recorded an allowance for doubtful accounts.

Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Routine maintenance and repairs and minor replacement costs are charged to expense as incurred, while expenditures that extend the life of these assets are capitalized. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The Company uses the same depreciation method for both financial reporting and tax purposes. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation and amortization will be removed from the accounts and the resulting profit or loss will be reflected in the statement of income. The estimated lives used to determine depreciation and amortization are:

Leasehold improvements	10 years
Machinery and equipment	10 years
Furniture and fixtures	14 years
Transportation equipment	7 years
Computer equipment	3 years

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Income Taxes

The Company uses the liability method of accounting for income taxes as required by Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when it is determined that it is more likely than not that the deferred tax assets will not be realized.

Warranty Reserves

The Company includes a one-year warranty on all products sold. A provision for estimated warranty costs, if material, is recorded at the time of sale. Based upon historical experience the Company has not incurred material costs relating to its warranty and has therefore not recorded a warranty provision at December 31, 2006.

Revenue Recognition and Customer Deposits

Revenue is recorded as product is shipped, the price has been fixed or determined, collectability 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 years ended December 31, 2006 and 2005 revenue relating to service contracts is less than one percent of net sales.

Shipping and Handling Costs

Shipping and handling costs are included in cost of sales in accordance with guidance established by the Emerging Issues Task Force ("EITF") issue No. 00-10, "Accounting for Shipping and Handling Costs."

Stock Based Compensation

Effective January 1, 2003 the Company adopted the fair method value alternative of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. For stock options, fair value is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock and the expected dividends on it, and the risk-free interest rate over the expected life of the option. For the years ended December 31, 2005 and 2004 the Company did not issued any stock options.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Research and Development Costs

Research and development costs are charged to general and administrative expense in the accompanying statement of income and consist of salaries. Research and development cost for the years ended December 31, 2006 and 2005 were approximately $399 and $379, respectively.

Earnings per Share

The Company presents basic earnings per share and, if appropriate, diluted earnings per share in accordance with the provisions of SFAS No. 128 “Earnings per Share” (“SFAS 128”).

Under SFAS 128 basic net earnings per share is computed by dividing the net earnings for the year by the weighted average number of common shares outstanding during the year. Diluted net earnings per share is computed by dividing the net earnings for the year by the weighted average number of common shares and common share equivalents outstanding during the year. Common stock equivalents would arise from the granting of stock options. For the years ended December 31, 2005 and 2004 the Company did not grant any stock options. Diluted earnings per share is not included as it is the same as basic for all periods shown.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered. In such circumstances, the Company will estimate the future cash flows expected to result from the use of the asset and its eventual disposition. Future cash flows are the future cash inflows expected to be generated by an asset less the future outflows expected to be necessary to obtain those inflows. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, the Company will recognize an impairment loss to adjust to the fair value of the asset. Management believes that there is no impairment of long-lived assets at December 31, 2006.

Minority Interest

Minority interest represents the minority stockholders' proportionate share of the equity of the Company's subsidiary at December 31, 2006. The minority interest is adjusted for the minority's share of the earnings or loss of Systems.

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 December 31, 2006 because of the relatively short maturity of the instruments. The fair value of due from stockholder is not practical to estimate without incurring excessive cost and is carried at cost at December 31, 2006. The carrying value of the long-term debt approximate fair value at December 31, 2006 based upon debt terms available for companies under similar terms.

F-10

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income for the year and foreign currency translation adjustments.

Foreign Currency Translation

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.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required 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.

Reclassification

Certain reclassifications have been made to the prior year's financial statements in order to conform to the current year presentation. New Accounting Pronouncements.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 153 "Exchange of Non-monetary Assets - an amendment of APB Opinion No. 29". Statement 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance, defined as transactions that are not expected to result in significant changes in the cash flows of the reporting entity. This standard, which is effective for exchanges of nonmonetary assets occurring in fiscal periods beginning after June 15, 2005, is not applicable to the Company's current operations.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 not yet determined what the effect will be, if any, on their 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 not yet determined what the effect will be, if any, on their financial statements.

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 - INVENTORIES

Inventories consist of the following at December 31, 2006:

Raw materials	$	936
Work in process		1,819
Finished goods		214
	$	2,969

F-13

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2006:

Leasehold improvements	$	111
Machinery and equipment		6
Furniture and fixtures		194
Transportation equipment		227
Computer equipment		369
		907
Less accumulated depreciation and amortization		(608)
	$	299

NOTE 6 - INCOME TAXES

The provision for income taxes consists of the following for the years ended December 31:

	2006		2005	
Current:	$	138	$	7
Foreign				
Deferred:		(4)		(4)
Foreign				
	$	134	$	3

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 6 - INCOME TAXES - (continued)

At December 31, 2006, the Company has a net operating loss carryforward of approximately $330 which may be utilized to offset future taxable income for United States Federal tax purposes. This net operating loss carryforward begins to expire in 2022. The only timing difference which creates a deferred tax asset is the net operating loss carryforward. This net operating loss carryforward creates a deferred tax asset of approximately $10. Since it is more likely than not that the Company will not realize a benefit from these net operating loss carryforwards a 100% valuation allowance has been recorded to reduce the deferred tax asset to its net realizable value.

Deferred tax assets are classified as current or non-current, according to the classification of the related asset or liability for financial reporting. At December 31, 2006 the Company's wholly owned Israeli subsidiary has a deferred tax asset of approximately $22, due to timing differences relating to severance payable. The Israeli subsidiary has not recorded a valuation allowance as it is more likely than not that the timing differences will be utilized.

The following is a summary of the components of non-current deferred tax assets at December 31, 2006:

Severance payable	$	84
Net operating loss carryforward		330
Valuation allowance		(392)
Deferred tax assets	$	22

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 6 - INCOME TAXES - continued

Differences between the United States Federal statutory income tax rate and the effective tax rate are as follows for the years ended December 31:

	2006	2005
Federal statutory rate	34.0%	34.0%
Valuation Allowance	(34.0)	(34.0)
Effect of foreign taxes	31.3	0.0
	31.3%	0.0%

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2006:

Bank line of credit due December 31, 2006 at 8.7 % per annum	$	1,489
Short-term bank loans, payable within twelve months at rates ranging from 6.5 % per annum and 8.5% per annum		2,061
Term loans, due between March 2007 and March 2010 at rates ranging from 5.0% per annum and 8.0% per annum		590
		4,140
Less current portion of term loans		3,822
	$	318

The Company has pledged its accounts receivables as collateral against its long term debt, which is payable to one financial institution. In addition, the president has guaranteed personal assets, as defined in the agreement, against the Company’s long term debt.

The aggregate maturities of long-term debt are as follows at December 31, 2006:

Year Ended

2007	$	2,332
2008		0
2009		6
2010		313
	$	2,651

F-16

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 8 - SEVERANCE PAYABLE

Severance payable represents amounts computed on employees' most recent salary and the number of years working in Israel. The Company's liability is partially offset by amounts deposited to insurance policies, which are under the company's control.

NOTE 9 - STOCK OPTION PLAN

On October 16, 2002 the Board of Directors of the Company authorized the formation of the 2002 Stock Option Plan (the "Plan"), subject to stockholder approval. The Plan provides for the granting of incentive stock options, non-statutory stock options and stock appreciation rights. The incentive stock options can be granted to employees, including officers, or any subsidiary of the Company. The non-statutory stock options can be granted to all employees, including officers, non-employee directors, consultants or any subsidiary of the Company. Non-statutory stock options can only be granted to consultants that have rendered a bona fide service to the Company, so long as the service is not in connection with the offer or sale of securities in a capital raising transaction. The number of shares of common stock reserved for issuance under the Plan is 500,000, subject to adjustment in the event of a stock split, stock dividend, recapitalization or similar change in the Company's capital structure.

Incentive stock options must be granted prior to ten years from the date the Plan was initially adopted by the Board of Directors. The option price for shares issued as incentive stock options shall not be less than the fair market value of the Company's common stock at the date of grant unless the option is granted to an individual who, at the date of the grant, owns more than 10% of the total combined voting power of all classes of the Company's stock (the "Principal Stockholder"). Then the option price shall be at least 110% of the fair market value at the date the option is granted. No incentive stock option granted under the Plan shall be exercisable after ten years from its grant date. If the incentive stock option is granted to a Principal Stockholder then the exercise period is five years from the date of grant. Every incentive stock option granted under the Plan shall be subject to earlier termination as expressly provided for in the Plan.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 9 - STOCK OPTION PLAN - continued

The option price for shares issued under the non-statutory stock options shall be determined at the sole discretion of the Board of Directors, but may not be less than 85% of the fair market value of the may be of such duration as shall be determined by the Board of Directors.

NOTE 10 - RELATED PARTIES

Due to Stockholder

At December 31, 2006 the majority stockholder had advances due to the Company of $6 that accrue interest at 4% per annum. These advances are repayable within the next twelve months.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 11 - RELATED PARTIES - continued

Due from Affiliate

During 2001 the Company entered into a sale-leaseback transaction with an entity owned by the majority stockholder of the Company. The Company sold a building for approximately $170 and received approximately $113 in cash and a note receivable for $57, which was paid in full during the year ended December 31, 2003. No gain or loss was recorded on this transaction, as the book value of the building equaled the fair market value. The Company has agreed to exercise its option to rent this property through December 31, 2007 at approximately **$27** annually with an option to renew the lease for an additional two years ending December 31, 2009 This lease has been classified as an operating lease.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Lease commitments

The Company leases certain office and manufacturing space under two noncancellable operating leases expiring at December 31, 2007 and March 31, 2007. Rent expense, including municipal taxes and utilities associated with the leases approximated $63 and $59, respectively, for the years ended December 31, 2006 and 2005.

At December 31, 2006, total minimum rentals under noncancellable operating leases with an initial or remaining term lease term of one year or more are as follows:

Year Ending
December 31:

2006	$	59
2007	**$**	**63**

Legal proceedings

A Customer has brought an action in the Tel Aviv District Court for an unspecified monetary amount against one of the Company's suppliers, a subcontractor of the supplier and Enertec Electronics, alleging that the materials supplied were defective and caused the Customer to replace the materials at a substantial financial expense. Enertec filed a defense claim that there is no cause of action against them as Enertec is only the local Israeli sales representative and did not make any implied or express representation or warranty to the Customer regarding the suitability of its materials.The Plaintiff has withdrawn its action against Enertec Electronics.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In Thousands, Except Share and Per Share Amounts)

NOTE 12 - CONCENTRATIONS

The Company had deposits with commercial financial institutions, which, at times, may exceed the FDIC insured limits of $100 in the United States. Management has placed these funds in high quality institutions in order to minimize the risk. Cash held in Israel at December 31, 2006 was $7.

At December 31, 2006 the Company had three customers that accounted for approximately 70% of accounts receivable. For the years ended December 31, 2006 and 2005 approximately 48.7% and 57%, respectively, of the Company's sales were to two customers, respectively.

NOTE 13- SEGMENT AND GEOGRAPHIC INFORMATION

Information about the Company's assets in different geographic locations at December 31, 2006 is shown below pursuant to the provisions of SFAS 131, "Disclosures About Segments of an Enterprise and Related Information."

Total assets:		
Israel	$	8,546
United States		1,037
	$	9,583