

LAPIS TECHNOLOGIES INC
Form 10-Q
August 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED: June 30, 2012

COMMISSION FILE NUMBER 333-100979

LAPIS TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware 27-0016420
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

70 Kinderkamack Road, Emerson, New Jersey 07630
(Address of principal executive offices) (Zip Code)

(201) 225-0190

(Registrant's telephone number, including area code)

n/a

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of August 14, 2012, there were 6,483,000 issued and outstanding shares of the Registrant's Common Stock, \$0.001 par value.

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements.****LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET****(In Thousands, Except Share Amount and Par value)**

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,951	\$ 940
Accounts receivable, net of allowance of doubtful account of \$286 and \$294 respectively	5,537	7,947
Inventories	2,350	2,479
Prepaid expenses and other current assets	808	705
Total current assets	11,646	12,071
Property and equipment, net	735	482
Long Term Deposit	25	22
Deferred income taxes	10	3
		-
	\$ 12,416	\$ 12,578
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short term bank loans	\$ 1,061	\$ -
Current portion of term loans	1,625	1,766
Accounts payable and accrued expenses	2,151	2,345
Total current liabilities	4,837	4,111

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Term loans, net of current portion and debt discount	3,210	3,787
Severance payable	183	228
Warrant liability	782	799
Excess of losses in unconsolidated subsidiary over investment	58	41
Total liabilities	9,070	8,966
Stockholders' Equity:		
Preferred stock; \$.001 par value, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock; \$.001 par value, 100,000,000 shares authorized, 6,483,000 shares issued and outstanding	6	6
Additional paid-in capital	-	-
Accumulated other comprehensive income	(188)	105
Retained Earnings	3,528	3,501
Stockholders' equity	3,346	3,612
	\$ 12,416	\$ 12,578

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

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2012	2011	2012	2011
Sales	\$4,432	3,974	2,480	2,474
Cost of sales	2,915	2,341	1,556	1,394
Gross profit	1,517	1,633	924	1,080
Operating expenses:				
Research and development expenses	109	121	53	62
Selling expenses	175	218	82	117
General and administrative	781	566	376	294
Total operating expenses	1,065	905	511	473
Income from operations	452	728	413	607
Other income (expense):				
Interest expense, net	(417)	(165)	(246)	(92)
Other income	4	-	-	-
Gain on change in fair value of warrant liability	17	-	9	-
Equity in earnings (loss) on unconsolidated subsidiary	(17)	-	11	-
Income before provision for income taxes	39	563	187	515
Provision (benefit) for income taxes	12	61	11	37
Net Income	27	502	176	478
Other comprehensive (loss) income, net of taxes				
Foreign translation (loss) gain	(293)	178	(152)	120
Comprehensive income (loss)	\$(266)	\$680	\$24	\$598
Basic and Diluted net income (loss) per share	0.00	0.08	0.03	0.07

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Basic weighted average common shares outstanding	6,483,000	6,483,000	6,483,000	6,483,000
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The accompanying notes are an integral part of these financial statements.

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

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 27	\$ 502
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46	34
Equity in loss of unconsolidated subsidiary	17	-
Gain on change in fair value of derivative	(17)	-
Deferred income tax	(7)	2
Change in operating assets and liabilities:		
Accounts receivable	2,410	118
Inventories	129	(419)
Prepaid expenses and other current assets	(103)	(349)
Accounts payable and accrued expenses	(195)	(1,051)
Severance payable	(45)	(141)
Net cash provided by (used in) operating activities - continuing operations	2,262	(1,304)
Net cash provided by operating activities - discontinued operations	-	363
Net cash provided by (used in) operating activities	2,262	(941)
Cash flows from investing activities:		
Purchase of property and equipment	(299)	(59)
Long-term deposits	(3)	-
Additional acquisition of non-controlling interest	-	(1,500)
Net cash used in investing activities - continuing operations	(302)	(1,558)
Cash flows from financing activities:		
Proceeds from repayment of short term bank loans	1,061	(219)
Payment of loans from related parties	-	(1,127)
Repayment of long-term debt	(577)	
Proceeds from repayment of long-term debt	(141)	3,423
Net cash provided by financing activities - continuing operations	343	2,077
Net cash provided by financing activities - discontinued operations	-	2,077
Net cash provided by financing activities	343	4,154

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Effects of exchange rates on cash	(292)	134
Increase (decrease) in cash and cash equivalents	2,011	(288)
Cash and cash equivalents, beginning of the period	940	626
Cash and cash equivalents, end of the period	\$2,951	\$ 338
Supplemental disclosure of cash flow information:		
Amount paid during the period for:		
Interest	\$ 118	\$ 109
Taxes	\$ 21	\$ 16

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

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Per Share Amounts)

June 30, 2012

(Unaudited)

NOTE 1 - DESCRIPTION OF BUSINESS

Lapis Technologies, Inc. (“Lapis” or the “Company”) was formed in Delaware on January 31, 2002 under the name Enertec Electronics, Inc. We are, via our wholly owned subsidiary Enertec Systems 2001 Ltd. (“Enertec Systems”), an Israeli corporation formed on August 28, 2001, a manufacturer and provider of various military and airborne systems, simulators and automatic test equipment (“ATE”). Our business is focused in two major product lines: (i) the development and manufacturing of simulators and ATE to a large variety of weapons systems and at all levels of maintenance, development and integration and (ii) the development and manufacturing of comprehensive, large scale, electronics systems for the military industry providing comprehensive solution to power supply, command and control including systems design, development, manufacturing and implementation on a turn-key basis.

NOTE 2 - BASIS OF PRESENTATION AND CONSOLIDATION

Basis of Presentation.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission (“SEC”). Accordingly, they do not contain all information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary (consisting only of normal recurring accruals) to present the financial position of the Company as of June 30, 2012 and the results of operations and cash flows for the periods presented. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the operating results for the full fiscal year or any future period. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. The

Company's accounting policies are described in the Notes to Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2011, and updated, as necessary, in this Quarterly Report on Form 10-Q.

Use of Estimates.

The preparation of the financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Certain of our estimates, including evaluating the collectability of accounts receivable, could be affected by external conditions, including those unique to our industry, and general economic conditions. It is possible that these external factors could have an effect on our estimates that could cause actual results to differ from our estimates. We re-evaluate all of our accounting estimates at least quarterly based on these conditions and record adjustments when necessary.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Per Share Amounts)

June 30, 2012

(Unaudited)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stock based compensation

The Company accounts for stock based compensation under the fair value method under which 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, the expected dividends on it, and the risk-free interest rate over the expected life of the option. For the periods ended June 30, 2012 and 2011 the Company did not issue any stock options.

Revenue Recognition

The Company enters into long-term fixed-price contracts with customers to manufacture test systems, simulators, and airborne applications. Revenue on these long-term fixed-price contracts is recognized under the percentage-of-completion method. In using the percentage of completion method, revenues are generally recorded based on the percentage of effort incurred to date on a contract relative to the estimated total expected contract effort. Significant judgment is required when estimating total contract effort and progress to completion on the arrangements as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Project costs are measured by the costs incurred to date as a percentage of the estimated total costs of each contract (cost-to-cost method). Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation. Selling, general and administrative costs are charged to expense as incurred. Estimated total costs of each contract are reviewed on a monthly basis by project management and operations personnel for substantially all projects. The Company begins recognizing revenue on a project when persuasive evidence of an arrangement exists, recoverability is probable, and project costs are incurred. Costs may be incurred before the Company has persuasive evidence of an arrangement. In those cases, if recoverability from that arrangement is probable, the project costs are deferred and revenue recognition

is delayed.

Provisions for losses on uncompleted contracts are made in the period such losses are known. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, foreign currency exchange rate movements, and final contract settlements may result in revisions to revenue, costs and income and are recognized in the period in which the revisions are determined.

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Per Share Amounts)

June 30, 2012

(Unaudited)

Income Taxes

We use the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

ASC Topic 740-10-30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740-10-40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board or other standard setting bodies that may have an impact on the Company's accounting and reporting. The Company believes that such recently issued accounting pronouncements and other authoritative guidance for which the effective date is in the future either will not have an impact on its accounting or reporting or that such impact will not be material to its financial position, results of operations, and cash flows when implemented.

NOTE 4 – INVENTORIES

Inventories consist of the following:

	June 30, 2012	December 31, 2011
Raw materials	\$ 826	\$ 732
Work in process	1,524	1,747
	\$ 2,350	\$ 2,479

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Per Share Amounts)

June 30, 2012

(Unaudited)

NOTE 5 – PROVISION FOR INCOME TAXES

The Company's Israeli subsidiaries are governed by the tax laws of the State of Israel, which has a general tax rate of 25%. The Company is entitled to various tax benefits in Israel by virtue of being granted the status of an "approved enterprise industrial company" as defined by the tax regulations. The benefits include, among other things, a reduced tax rate.

At June 30, 2012, the Company has a net operating loss carry forward of approximately \$310 which may be utilized to offset future taxable income for United States federal tax purposes. This net operating loss carry forward begins to expire in 2022. Since it is more likely than not that the Company will not realize a benefit from these net operating loss carry forwards, a 100% valuation allowance has been recorded to reduce the deferred tax asset to its net realizable value.

NOTE 6 - CONCENTRATIONS

The Company had deposits with commercial financial institutions, which, at times, may exceed the FDIC insured limits of \$250 in the United States. Management has placed these funds in high quality institutions in order to minimize the risk. Cash held at June 30, 2012 was \$2,951 as compared to \$940 at December 31, 2011.

As of June 30, 2012, we had two customers that combined accounted for approximately 94% of accounts receivable, compared to 91% of accounts receivable, as of December 31, 2011. For the three and six months ended June 30, 2012, approximately 93% and 94% of our sales were to two customers, compared to 87% and 89% for the three and six months ended June 30, 2011, respectively.

NOTE 7 - SEGMENT AND GEOGRAPHIC INFORMATION

Information about the Company's assets in different geographic locations at June 30, 2012 is shown below:

Total assets:	June 30, 2012
Israel	\$11,004
United States	\$1,412
	\$12,416

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This quarterly report on Form 10-Q (the “Report”) contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or “continue,” the negative of such terms, or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those in the forward-looking statements as a result of various important factors. Although we believe that the expectations reflected in the forward-looking statements are reasonable, such should not be regarded as a representation by Lapis Technologies, Inc. (“Lapis” or the “Company”), or any other person, that such forward-looking statements will be achieved. The business and operations of Lapis Technologies, Inc. and its subsidiaries are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this Report. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed under “Risk Factors,” included in our annual report on Form 10-K for the year ended December 31, 2011, as supplemented or revised by this Report.

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

Overview

Lapis was formed in Delaware on January 31, 2002 under the name Enertec Electronics, Inc. We are, via our wholly owned subsidiary Enertec Systems 2001 Ltd. (“Enertec Systems”), an Israeli corporation formed on August 28, 2001, a manufacturer and provider of various military and airborne systems, simulators and automatic test equipment (“ATE”). Our business is focused in two major product lines: (i) the development and manufacturing of simulators and ATE to a large variety of weapons systems and at all levels of maintenance, development and integration and (ii) the development and manufacturing of comprehensive, large scale, electronics systems for the military industry providing comprehensive solution to power supply, command and control including systems design, development, manufacturing and implementation on a turn-key basis.

Our operations are located in Israel and serve leading Israeli defense integrators in the market for both local Israeli and worldwide sales. We combine our deep expertise in the industry with strong technical capabilities to provide a complete range of high quality products, systems and services on a global scale. By integrating our abilities and focusing on business and project teams, we leverage our corporate knowledge and experience, intellectual property and infrastructure to develop innovative solutions for clients we serve worldwide.

The management of Lapis has begun to implement its strategy of focusing on developing comprehensive electronics turn-key solutions via its wholly owned subsidiary Enertec Systems. This strategy potentially includes larger scale transactions that we anticipate could result in higher revenue as well as increased gross margin and overall profitability. Presently, Lapis conducts its operations in Israel through its wholly owned subsidiary Enertec Systems located in Karmiel in the northern part of Israel.

Our vision is to become a major producer for the defense and Homeland Security (“HLS”) industries. Our strategy is driven and focused on the continued internal growth of Enertec Systems through diligent efforts in the development of new potential markets as well as new technologies and innovative systems and products. In order to help achieve our internal growth, we have enhanced our production capacity by moving to a larger facility. Our current targeted markets in which we concentrate the majority of our resources including our marketing and sales efforts are the Israeli domestic market, the United States market, as well as the large growing Indian defense market. We have established a new joint venture with Amtek Defense Technologies Limited of Amtek, a leading Indian industrial group, for the formation of a manufacturing and marketing platform in India of products based on the Enertec Systems technology and know-how. The formation of the joint venture will also provide Enertec Systems with the ability to deliver new competitive offset solutions to its existing customers. We anticipate that the joint venture will create new business opportunities for Enertec Systems in Indian and nearby markets and assist it in penetrating such markets.

In supporting our vision and market strategy, we have nominated an advisory board for Enertec Systems composed of various leaders in the Israeli defense and financial industries. We continue to explore alternatives to strengthen our financial position including public or private capital raises.

Our management is also exploring potential acquisitions of companies with synergistic businesses that may allow us to enlarge the variety of our solutions to the market and increase our competitiveness.

Liquidity and Capital Resources

As of June 30, 2012, our cash balance was \$2,951,000 as compared to \$940,000 at December 31, 2011. Total current assets at June 30, 2012 were \$11,646,000 as compared to \$12,071,000 at December, 2011.

Our accounts receivable at June 30, 2012 were \$5,537,000 as compared to \$7,947,000 at December 31, 2011. This decrease in accounts receivables is primarily due to the collection of \$1,700,000 on January 1, 2012.

As of June 30, 2012 our working capital was \$6,809,000 as compared to \$7,960,000 at December 31, 2011. The decrease in the working capital is due primarily to an increase in current liabilities.

The current portion of long-term loans at June 30, 2012 was \$1,625,000 as compared to \$1,766,000 for December 31, 2011. Our total short-term loans amounted to \$1,061,000 for the six months ended June 30, 2012 as compared to \$0 at December 31, 2011.

As of June 30, 2012, our total bank debt was \$6,678,000, of which \$3,000,000 consists of a loan from UTA Capital LLC, a Delaware limited liability company, warrants liability in the amount of \$782,000 and the remainder is commercial bank debt. Our total bank debt at December 31, 2011 was \$6,352,000.

There are no other lines of credit available to us to refinance our short-term bank loans. Additionally, we currently do not have any other sources of financing available to us for refinancing our short-term loans. As of June 30, 2012, we are current with all of our bank debt and compliant with all the terms of our bank debt.

Financing Needs

Although we currently do not have any material commitments for capital expenditures, we expect our capital requirements to increase over the next several years as we continue to support the growth of our business, develop, manufacture and market larger-scale solutions, support our growing manufacturing and finance needs, continue the development and testing of our suite of products and systems, increase management, 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 i) the levels and costs of our research and development initiatives, ii) the cost of hiring and training additional highly skilled professionals (mainly engineers and technicians), qualified stronger management, and sales and marketing personnel to promote our products, and iii) the cost and timing of the expansion of our development, manufacturing and marketing efforts.

Based on our current business plan, we anticipate that our existing cash balances and cash generated from future sales will be sufficient to permit us to conduct our operations and to carry out our contemplated business plans for the next twelve months. However, management may undertake additional debt or equity financings to better enable Lapis to grow and meet its future operating and capital requirements. There is no assurance that we will be able to consummate such offerings on favorable terms or at all. Currently, the only external sources of liquidity are our banks, and we may seek additional financing from them or through securities offerings to expand our operations, using new capital to develop new products, enhance existing products or respond to competitive pressures.

Results of Operations

Three and Six Months Ended June 30, 2012 Compared to Three and Six Months Ended June 30, 2011

Revenues for the three and six months ended June 30, 2012 were \$2,480,000 and \$4,432,000 as compared to \$2,474,000 and \$3,974,000 for the three and six months ended June 30, 2011, respectively. This represents an increase of \$6,000 or 0.24% for the quarter ended June 30, 2012 and an increase of \$458,000 or 11.5% for the six months ended June 30, 2012, when compared to the same periods of 2011.

Gross profit decreased by \$156,000 and by \$116,000, to \$924,000 and \$1,517,000 for the three and six months ended June 30, 2012 as compared to \$1,080,000 and \$1,633,000 for the three and six months ended June 30, 2011. The decrease in the gross profit is mainly due to sales of projects with lower gross margins.

Gross profit as a percentage of sales was 37.25% and 34.20% for the three and six month period ended June 30, 2012 compared to 44% and 41% for the three and six month periods ended June 30, 2011.

For the three and six month periods ended June 30, 2012, operating expenses totaled \$511,000 and \$1,065,000, which represents an increase of \$38,000 or 8% and an increase of \$160,000 or 17.6%, when compared to \$473,000 and \$905,000 for the three and six month periods ended June 30, 2011. The increase in operating expenses is due mainly to "moving expenses" as a result of moving into a new building.

Our net income was \$176,000 and \$27,000 in the three and six months ended June 30, 2012, compared to a net income of \$478,000 and \$502,000 in the three and six months ended June 30, 2011. This represents a decrease in net income of \$302,000 and \$475,000 comparing the three and six month periods ended June 30, 2011. The decrease was primarily the result of interest expenses related to warrant liability and UTA loan (approximately 56% of the decrease of \$475,000 in net income), and a decrease in gross profit.

Research and Development Costs

Research and development costs are part of operating expenses. Research and development costs for the three and six months ended June 30, 2012 were \$53,000 and \$109,000, compared to \$62,000 and \$121,000 for the three and six months ended June 30, 2011.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect that is material to investors on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

During the three and six months ended June 30, 2012, there were no changes made to our critical accounting policies. For further information, please refer to “Critical Accounting Policies” included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 30, 2012.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not Applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Exchange Act the Company carried out an evaluation with the participation of the Company's management, including Mr. David Lucatz, the Company's Chief Executive Officer ("CEO") and Mrs. Tali Dinar, the Company's Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of the period ended June 30, 2012. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal controls

Our management, with the participation of our CEO and CFO, performed an evaluation as to whether any change in our internal controls over financial reporting occurred during the quarter ended June 30, 2012. Based on that evaluation, our CEO and CFO concluded that no change occurred in the Company's internal controls over financial reporting during the quarterly period ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II- OTHER INFORMATION

Item 1A. Risk Factors.

There are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 6. Exhibits.

Exhibit Number	Description
31.1	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Lapis Technologies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheet, (ii) Consolidated Statements of Income and Other Comprehensive Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LAPIS TECHNOLOGIES, INC.

Date: August 14,
2012

By: /s/ David Lucatz

David Lucatz
President and Chief Executive Officer (Principal Executive Officer)

Date: August 14,
2012

By: /s/ Tali Dinar

Tali Dinar
Secretary and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Lapis Technologies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheet, (ii) Consolidated Statements of Income and Other Comprehensive Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.

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