LAPIS TECHNOLOGIES INC
Form 10-Q
November 14, 2011

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: September 30, 2011

COMMISSION FILE NUMBER 333-100979

LAPIS TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	27-0016420 (I.R.S. Employer Identification No.)
70 Kinderkamack Road, Emerson, New Jersey (Address of principal executive offices)	07630 (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 o No x

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 x No o

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 x

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

As of November 11, there were 6,483,000 issued and outstanding shares of the Registrant's Common Stock, $0.001 par value.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In Thousands, Except Share Amount and Par value)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,051	$ 626
Accounts receivable	6,382	4,532
Inventories	3,093	3,138
Prepaid expenses and other current assets	614	498
Total current assets	12,140	8,794
Assets of discontinued operations	-	207
Property and equipment, net	379	255
Long Term Deposit	23	21
Deferred income taxes	2	7
	$ 12,544	$ 9,284
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Bank line of credit	$ -	$ -
Short term bank loans	$ 189	$ 256
Current portion of term loans	1,790	93
Accounts payable and accrued expenses	2,304	2,957
Due to stockholder		1,127
Income taxes payable	-	-
Total current liabilities	4,283	4,433
Liabilities of discontinued operations	-	156
Term loans, net of current portion and debt discount of $800	3,965	561
Severance payable	231	89
Warrant liability	825	-
Total liabilities	9,304	5,239
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		-		78
Accumulated other comprehensive income		229		423
Retained Earnings		3,005		2,321
Stockholders' equity Lapis Technologies		3,240		2,828
Non-controlling interest in subsidiary		-		1,217
Total stockholders' equity		3,240		4,045
	$	12,544	$	9,284

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

3

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

(In Thousands, Except Earnings Per Share and Share Amounts)

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
Sales	$6,947	7,517	$2,973	2,402
Cost of sales	4,191	4,561	1,850	1,571
Gross profit	2,756	2,956	1,123	831
Operating expenses:				
Research and development expenses	184	181	63	62
Selling expenses	304	272	86	198
General and administrative	931	951	365	226
Total operating expenses	1,419	1,404	514	486
Income from operations	1,337	1,552	609	345
Other income (expense):				
Interest expense, net	(401)	(193)	(236)	(75)
Other income (expense)	-	(2)	-	(3)
Gain on change in fair value of warrant liabiltiy	3	-	3	-
Income from continuing operations before provision for income taxes	939	1,357	376	267
Provision for income taxes	76	103	15	29
Net income from continuing operations	863	1,254	361	238
Income (Loss) from discontinued operations		(71)		33
	-	-	-	-
	863	1,183	361	271
Less: net income attributable to non-controlling shareholders	-	329	-	71
Net income attributable to Lapis Technologies shareholders	863	854	361	200
Other comprehensive (loss) income, net of taxes				
Foreign translation (loss) gain	(194)	(5)	(372)	22
Comprehensive income	$669	$849	$(11)	$222

Basic and Diluted net income (loss) per share				
Continuing Operations	0.13	0.14	0.06	0.03
Discontinued Operations	-	-	-	-
	0.13	0.14	0.06	0.03
Basic weighted average common shares outstanding	6,483,000	6,483,000	6,483,000	6,483,000

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

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

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	$863	$849
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	54	20
Non-controlling interest in subsidiary	-	349
Gain on sale of property and equipment	-	(2)
Gain on change in fair value of derivative	(3)	-
Deferred income tax	(5)	14
Change in operating assets and liabilities:		
Accounts receivable	(1,850)	(178)
Inventories and income to receive	45	541
Prepaid expenses and other current assets	(116)	(470)
Accounts payable and accrued expenses	(653)	355
Income tax payable	-	138
Severance payable	(142)	11
Net cash provided by (used in) operating activities - continuing operations	(1,807)	1,627
Net cash provided by operating activities - discontinued operations	363	(237)
Net cash provided by (used in) operating activities	(1,444)	1,390
Cash flows from investing activities:		
Purchase of property and equipment	(178)	(92)
Additional acquisition of non-controlling interest	(1,500)	-
Net cash used in investing activities - continuing operations	(1,676)	(92)
Cash flows from financing activities:		
Repayment of short term bank loans	(67)	(1,043)
Decrease in due to affilliates		58
Payment of loans from related parties	(1,127)	
Proceeds from long-term debt	5,929	(24)
Net cash provided by (used in) financing activities - continuing operations	4,735	(1,009)
Net cash provided by (used in) financing activities	4,735	269
Effects of exchange rates on cash	(190)	76
Increase (decrease) in cash and cash equivalents	1,425	634
Cash and cash equivalents, beginning of the period	626	241

Cash and cash equivalents, end of the period	$2,051	$875
Supplemental disclosure of cash flow information:		
Amount paid during the period for:		
Interest	$172	$181
Taxes	$31	$38

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 and Share Amounts)
September 30, 2011
(Unaudited)

NOTE 1 - DESCRIPTION OF BUSINESS

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 Electronics") and its wholly-owned Israeli subsidiaries, Enertec Management Ltd. and Enertec Systems 2001 Ltd. ("Enertec Systems").

Enertec Systems is a manufacturer and provider of various military and airborne systems, simulators and automatic test equipment ("ATE"). The 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 solutions 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 September 30, 2011 and the results of operations and cash flows for the periods presented. The results of operations for the nine and three months ended September 30, 2011 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, 2010. 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, 2010, 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 and Share Amounts)
September 30, 2011
(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 September 30, 2011 and 2010 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.

Common Stock Purchase Warrants and Other Derivative Financial Instruments

We classify as equity any contracts that require physical settlement or net-share settlement or provide us a choice of net-cash settlement or settlement in our own shares (physical settlement or net-share settlement) provided that such contracts are indexed to our own stock as defined in ASC 815-40 (“Contracts in Entity’s Own Equity”). We classify as assets or liabilities any contracts that require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside our control) or give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). We assess classification of our common stock purchase warrants and other free standing derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

Our derivative financial instruments consist of the Stock Purchase Warrants we issued to UTA Capital LLC, a Delaware limited liability company (“UTA”), in connection with the financing (See Note 10). We evaluated these derivatives to assess their proper classification using the applicable classification criteria enumerated under ASC 815-40. We determined that the warrant should be classified as liabilities in the accompanying balance sheets because the settlement provisions are not fixed due to anti-dilution price protection and other price adjustments based upon specific triggering events.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share and Share Amounts)
September 30, 2011
(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 – ACQUISITION OF NON-CONTROLLING INTEREST

On March 2, 2011, Enertec Management Ltd., an indirect, wholly-owned subsidiary of the Company, acquired the 27% of the outstanding shares Enertec Systems 2001 Ltd., not previously held by the Company, for an aggregate purchase price of $1,500. The Company accounted for the acquisition of the additional interest as an equity transaction in accordance with the accounting standard on noncontrolling interest. Following the transaction, Enertec Systems 2001 Ltd. is now an indirect, wholly-owned subsidiary of the company.

NOTE 5 – INVENTORIES

Inventories consist of the following:

	September 30, 2011	December 31, 2010
Raw materials	$ 750	$ 648
Work in process	2,343	2,490

	$ 3,093	$ 3,138

8

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share and Share Amounts)
September 30, 2011
(Unaudited)

NOTE 6 – 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 September 30, 2011, the Company has a net operating loss carry forward of approximately $425 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 7 - DISCONTINUED OPERATIONS

On October 17, 2010, Enertec Electronics Ltd., a wholly-owned subsidiary of the Company entered into an asset purchase agreement to sell substantially all its electronics assets and business for an aggregate consideration of NIS 1,020 (approximately $278). Enertec Electronics is engaged in the trading of electronics equipment (such as power supplies and other related power products). As a result of the agreement and in accordance with ASC Topic No. 205-20, "Presentation of Financial Statements – Discontinued Operations," the operations of Enertec Electronics are classified as discontinued operations in the Company's consolidated statement of operations and all assets and liabilities are presented separately on the consolidated balance sheets. All prior period information has been reclassified to be consistent with the current period presentation.

NOTE 8 - 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 September 30, 2011 was $2,051 as compared to $626 at December 31, 2010.

As of September 30, 2011, we had two customers that combined accounted for approximately 94% of accounts receivable, compared to 92% of accounts receivable, as of December 31, 2010. For the three and nine months ended September 30, 2011, approximately 93% and 91% of our sales were to two customers, compared to 95% for the three and nine months ended September 30, 2010.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share and Share Amounts)
September 30, 2011
(Unaudited)

NOTE 9 - SEGMENT AND GEOGRAPHIC INFORMATION

Information about the Company's assets in different geographic locations at September 30, 2011 and December 31, 2010 is shown below:

Total assets:	September 30, 2011	December 31, 2010
Israel	$ 11,389	$ 9,116
United States	$ 1,155	$ 168
	$ 12,544	$ 9,284

NOTE 10 – UTA CAPITAL LLC TRANSACTION

On July 12, 2011, the Company entered into a Note and Warrant Purchase Agreement (as amended, the "Purchase Agreement") with UTA, pursuant to which UTA agreed to provide financing to the Company on a secured basis. On August 16, 2011, the Company entered into a letter agreement (the "Letter Agreement") with UTA pursuant to which the Company and UTA agreed to amend the Purchase Agreement to extend the date on which the Purchase Agreement could be terminated by either party if an initial closing under the Purchase Agreement had not yet occurred was extended from August 15, 2011 to August 31, 2011. On September 1, 2011, the Company entered into a Second Amendment to the Purchase Agreement.

The initial closing (the "Initial Closing") of the transactions contemplated by the Purchase Agreement took place on September 1, 2011. In connection therewith, the Company issued to UTA a secured promissory note in the principal amount of $3,000 that matures on March 1, 2014 (the "First Note"). The First Note bears interest at a rate of 8% per annum and principal is due to be repaid in three equal principal payments of $1,000 on each of September 1, 2012, September 1, 2013 and March 1, 2014. Net proceeds from the sale of the First Note are to be used as working capital for the Company and its subsidiaries. In addition, the Company issued to UTA a warrant (the "First Warrant" or "First Warrants") to purchase up to 952,227 shares of the Company's common stock, par value $0.001 (the "Common Stock"), representing 12% of the Company's outstanding shares of Common Stock, on a fully diluted basis. The First Warrant first becomes exercisable on March 1, 2012 and will terminate, to the extent not exercised, on March 1, 2017. The Company has agreed to customary covenants and that within four months following the Initial Closing, the Company will satisfy the corporate governance requirements under Nasdaq Marketplace Rules 5605 and Rule 5610 as if the Common Stock were listed on the Nasdaq Stock Market.

On September 1, 2011, the Company entered into a Pledge and Security Agreement under which it pledged, as security in favor of UTA for the obligations of the Company under the First Note, the Intermediate Note (as defined below), if and when issued, the Second Note (as defined below), if and when issued, and the Purchase Agreement, all of the shares of capital stock of Enertec Electronics, and granted, as additional security in favor of UTA for the obligations of the Company under the transaction documents, a security interest in and lien on any and all accounts receivable, contracts, chattel paper, equipment and all other assets of the Company.

On September 1, 2011, each of the Company's subsidiaries entered into a security agreement guaranteeing all of the Company's obligations under the transaction documents and agreed to certain other restrictions.

10

Pursuant to the Purchase Agreement, UTA has also agreed to purchase a 27-month, secured promissory note in the principal amount of $3,000 (the "Second Note") at the second closing (the "Second Closing"), which closing is to occur not later than nine months after the Initial Closing, subject to the closing conditions set forth Purchase Agreement; provided, however, that the principal amount of the Second Note is to be reduced by the aggregate unpaid principal amount outstanding under the Intermediate Note (as defined below) as of the date of the Second Closing. The First Note and the Second Note will be secured by the pledge of certain of the assets of the Company and its subsidiaries and will be identical other than their duration.

The Company has also agreed to issue to UTA at the Second Closing a second warrant (the "Second Warrant" and, together with the First Warrant, the "Warrants") to purchase that number of shares of Common Stock in order that the Warrants, and any shares of Common Stock issued upon exercise of the First Warrant, represent 12% of the outstanding shares of Common Stock on a fully diluted basis as of the Second Closing. The Company has agreed to grant to UTA certain demand and "piggy back" registration rights in respect of the shares underlying the Warrants, as set forth in the Purchase Agreement.

In addition, pursuant to the Purchase Agreement, the Company may issue to UTA (i) a 12-month, secured promissory note for the principal amount of $1,500 (the "Intermediate Note") that may be issued to UTA by the Company upon 60 days' prior notice by UTA or the Company, which notice either UTA or the Company may give to the other party commencing on December 30, 2011 (but no later than the first to occur of June 1, 2012 or the consummation of the Second Closing), (ii) a warrant entitling UTA to purchase from the Company up to a total of 2% of the Company's outstanding common stock, on a fully-diluted basis, subject to adjustment as described below (the "2% Intermediate Warrant"), that the Company will issue to UTA if a closing with respect to the Intermediate Note takes place (the "Intermediate Closing"), and (iii) a warrant entitling UTA to purchase from the Company up to a total of 2% of the Company's outstanding common stock, on a fully-diluted basis, that the Company will issue to UTA in certain circumstances in the event that the Intermediate Closing does not occur (the "2% Default Intermediate Warrant" and together with the 2% Intermediate Warrant, the "Intermediate Warrant").

The Intermediate Note, if issued, will bear interest at a rate of 8% per annum and principal will be due to be repaid on the maturity date. The proceeds from the issuance of the Intermediate Note are to be used solely to refinance the existing bank facility provided by First International Bank of Israel and to pay fees and expenses related thereto.

In the event that, as of the six-month anniversary of the date of the Intermediate Closing, the Company has not satisfied and discharged all of its obligations under the Intermediate Note, the percentage of shares underlying the 2% Intermediate Warrant (the "Fixed Percentage") will be automatically increased from 2% to 4%. The Fixed Percentage will be increased by an additional 2% on each three-month anniversary thereafter until the expiration date of the 2% Intermediate Warrant if the Company has not satisfied and discharged all of its obligations under the Intermediate Note as of such dates. The Fixed Percentage will cease to increase following the closing of an acquisition by the Company, directly or indirectly, of the majority of the equity interests in or substantially all of the assets of (x) an acquisition candidate being considered by the Company, or, (y) subject to UTA's prior written consent, another entity.

The carrying amount of the First Warrants, which are recorded as derivative liabilities, were adjusted to fair value at September 30, 2011. We calculated the fair value of the First Warrants using the Black-Scholes option-pricing model with the following assumptions at their date of issuance and reporting dates of September 30, 2011:

	September 1, 2011	September 30, 2011
Fair Value of stock	$ 1.11	$ 1.11
Exercise Price	$ .50	$ .50
Term (Years)	5.5	5.5
Dividend Rate (%)	0	0

Volatility (%)	80%	80%
Risk Free Rate (%)	.91%	.91%
Number of warrants	952,227	952,227
Aggregate fair value	$ 828,080	$ 825,190

The changes in fair value between the date of issuance September 1, 2011 and September 30, 2011 amounted to $(2,890), and is included in the accompanying statements of operations as a component of the change in derivative liabilities.

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, 2010, 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 solutions 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 using its factory located in Karmiel in the northern part of Israel.

Our vision is to become a major force in the Aerospace and Defense industries. In supporting our vision and market strategy, we formed an advisory board for Enertec Systems composed of various leaders in the Israeli defense and financial industries. Our strategy is driven and focused on the continued organic growth concurrent with the search for the acquisitions of carefully selected companies that can contribute to our future growth and profitability. We anticipate that the internal growth of Enertec Systems will be achieved through the development of new markets as well as new technologies and innovative systems and products. We expect to move to a larger facility in early 2012, which will increase our production capacity. We anticipate that the increase in production capacity will support and contribute to the future growth of our business in 2012. 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 are currently engaged in the formation of 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 joint venture was established under the name “Amertec Systems Private Limited” (“Amertec”). We anticipate that Amertec will be fully operational by early 2012. Amertec 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. 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 synergetic business that may allow us to enlarge the variety of our solutions to the market and increase our competitiveness.

Liquidity and Capital Resources

As of September 30, 2011, our cash balance was $2,051,000 as compared to $626,000 at December 31, 2010. Total current assets at September 30, 2011 were $12,140,000 as compared to $8,794,000 at December, 2010. The increase in current assets is mainly due to the increase in cash and cash equivalents as a result of the issuance of debt in the private placement with UTA Capital LLC ("UTA") and increase in accounts receivables. See Note 10 to the Notes to the Consolidated Financial Statements included elsewhere in this Report.

Our accounts receivable at September 30, 2011 were $6,382,000 as compared to $4,532,000 at December 31, 2010.

As of September 30, 2011 our working capital was $7,857,000 as compared to $4,361,000 at December 31, 2010. The increase in the working capital is due primarily to an increase cash and accounts recievable.

The current portion of long-term loans at September 30, 2011 was $1,790,000 as compared to $93,000 for December 31, 2010. Our total short-term loans amounted to $189,000 for the nine months ended September 30, 2011 as compared to $256,000 for the nine months ended September 30, 2010.

As of September 30, 2011, our total debt was $6,769,000 of which $3,000,000 consists of a loan from UTA, warrants liability in the amount of $825,000 and the remainder is commercial bank debt, as compared to $910,000 at December 31, 2010. These funds were borrowed as follows: $1,979,000 as various short-term bank loans with current maturities due through 2011, and $4,790,000 using long-term loans. As a result, we increased the amount borrowed for the nine months ended September 30, 2011 by $5,859,000 compared to December 31, 2010. The increase is due to an increase in working capital needs and the acquisition of the remaining 27% of the shares of our wholly-owned subsidiary, Enertec Systems.

There are no other lines of credit available to us to refinance our short-term bank loans. Additionally, we currently do not have any other sources of financing available to us for refinancing our short-term loans. As of September 30, 2011, we are current with all of our debt and compliant with all the terms of our debt obligations.

As of September 30, 2011, we had two customers that combined accounted for approximately 93% of the accounts receivables.

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.

On July 12, 2011, we entered into a Note and Warrant Purchase Agreement with UTA, pursuant to which we may incur up to $6,000,000 in secured debt. On September 1, 2011, we closed on the Initial Closing as previously described. See Note 9 to the Consolidated Financial Statements included elsewhere in this Report for more information. The only additional 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 and for the acquisition of companies.

Results of Operations

Three and Nine Months Ended September 30, 2011 Compared to Three and Nine Months Ended September 30, 2010

Revenues for the three and nine months ended September 30, 2011 were $2,973,000 and $6,947,000 as compared to $2,402,000 and $7,517,000 for the three and nine months ended September 30, 2010. This represents an increase of $571,000, or 24%, for the quarter ended September 30, 2011and a decrease of $570,000, or 7.5%, for the nine months ended September 30, 2011, when compared to the same periods of 2010.

Gross profit increased by $292,000 to $1,123,000 for the three months ended September 30, 2011 and decreased by $200,000 to $2,756,000 for the nine months ended September 30, 2011 as compared to $831,000 and $ 2,956,000 for the three and nine months ended September 30, 2010. The decrease in gross profit for the nine months ended September 30, 2011 is primarily the result of a decrease in sales revenues.

Gross profit as a percentage of sales was 38% and 40% for the three and nine month periods ended September 30, 2011 compared to 35% and 39% for the three and nine month periods ended September 30, 2010.

For the three and nine month periods ended September 30, 2011, operating expenses totaled $514,000 and $1,419,000, which represents an increase of $28,000, or 6%, and an increase of $15,000, or 1%, when compared to $486,000 and $1,404,000 for the three and nine month periods ended September 30, 2010.

Our net income was $361,000 and $863,000 in the three and nine months ended September 30, 2011, compared to net income of $200,000 and $854,000 in the three and nine months ended September 30, 2010. This represents an increase in net income of $161,000 and an increase of $9,000 comparing the three and nine month periods ended

September 30, 2010.

Research and Development Costs

Research and development costs are part of operating expenses. Research and development costs for the three and nine months ended September 30, 2011 were $63,000 and $184,000, compared to $62,000 and $181,000 for the three and nine months ended September 30, 2010.

Interest Expenses

For the three and nine month periods ended September 30, 2011, interest expenses totaled $236,000 and $401,000, which represents an increase of $161,000, and an increase of $208,000 when compared to $75,000 and $401,000 for the three and nine month periods ended September 30, 2010. The increase is mainly due to consummation of the debt transaction with UTA which includes the payment of interest on the principal amount of the loan as well as the interest recorded in the financial statements due to the issue of the warrants to UTA under the transaction described in note 10 of the financial statements.

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 nine months ended September 30, 2011, 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, 2010 filed with the SEC on March 31, 2011.

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 September 30, 2011. 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 September 30, 2011. 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 September 30, 2011 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, 2010.

Item 6. Exhibits.

Exhibit Number	Description
10.1	Note and Warrant Purchase Agreement, dated as of July 12, 2011, by and between the Company and UTA Capital LLC (Incorporated by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on July 18, 2011).
10.2	First Amendment to Note and Warrant Purchase Agreement, dated as of August 16, 2011, by and between Lapis Technologies Inc. and UTA Capital LLC.
10.3	Second Amendment to Note and Warrant Purchase Agreement, dated as of August 31, 2011, by and between Lapis Technologies Inc. and UTA Capital LLC (Incorporated by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 7, 2011).
10.4	Secured Promissory Note Dated September 1, 2011 issued to UTA Capital LLC (Incorporated by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 7, 2011).
10.5	Common Stock Purchase Warrant Dated September 1, 2011 issued to UTA Capital LLC (Incorporated by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 7, 2011).
10.6	Company Pledge and Security Agreement, dated as of September 1, 2011, by and between Lapis Technologies Inc. and UTA Capital LLC (Incorporated by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 7, 2011).
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 September 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated

Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.

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: November 14, 2011	By:	/s/ David Lucatz David Lucatz President and Chief Executive Officer (Principal Executive Officer)
Date: November 14, 2011	By:	/s/ Tali Dinar Tali Dinar Secretary and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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