

PRIMUS TELECOMMUNICATIONS GROUP INC
Form 8-K
September 17, 2012

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 11, 2012

PRIMUS TELECOMMUNICATIONS GROUP,
INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction)

001-35210
(Commission)

54-1708481
(IRS. Employer)

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of incorporation)

File Number)

Identification No.)

7901 Jones Branch Drive, Suite 900

McLean, VA 22102

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (703) 902-2800

Not Applicable

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement.

On September 17, 2012, Primus Telecommunications Holding, Inc. (PTHI), a subsidiary of Primus Telecommunications Group, Incorporated (the Company), consummated the repurchase of \$119,035,219 aggregate principal amount of PTHI's 10% Senior Secured Notes due 2017 (the 10% Notes) for a purchase price equal to 109% of the principal amount thereof, plus accrued but unpaid interest to the date of repurchase, in each case pursuant to agreements with the selling holders of 10% Notes. The sellers of the 10% Notes, representing a majority in principal amount of the outstanding 10% Notes, consented to an amendment of the indenture governing the 10% Notes to remove substantially all of the restrictive and reporting covenants under the indenture, as well as certain events of default and related provisions. PTHI, each of the guarantors of the 10% Notes, including the Company, and U.S. Bank National Association, as Trustee, entered into a Supplemental Indenture, dated as of September 17, 2012 (the Supplemental Indenture), to memorialize the indenture amendments. A copy of the Supplemental Indenture is attached as Exhibit 4.1 to this Form 8-K and is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

- 4.1 Supplemental Indenture, dated as of September 17, 2012, by and among Primus Telecommunication Holding, Inc., the Guarantors party thereto, and U.S. Bank National Association, as Trustee.
- 99.1 Press release of Primus Telecommunications Group, Incorporated dated September 17, 2012.

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 hereunto duly authorized.

Primus Telecommunications Group, Incorporated
(Registrant)

Date: September 17, 2012

By: /s/ Peter D. Aquino
Name: Peter D. Aquino
Title: Chairman, President & Chief Executive Officer

INDEX TO EXHIBITS

| Exhibit No. | Description | |
|-----------------------------------|--|-------------|
| 4.1 | Supplemental Indenture, dated as of September 17, 2012, by and among Primus Telecommunication Holding, Inc., the Guarantors party thereto, and U.S. Bank National Association, as Trustee. | |
| 99.1 | Press release of Primus Telecommunications Group, Incorporated dated September 17, 2012. DENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="right">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 International, Appletec Ltd., Migvan Technologies Ltd., Boran Technologies Ltd., Telkooor 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 expertise 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 11 employees 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, Orkit 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 Orkit 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 Quarter | Fiscal 2006 | | Fiscal 2005 | |
|----------------------------------|-------------|---------|-------------|---------|
| | 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 \$3,352,000 of 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, Kiriya, Kiriya, P.O. Box 497, Kiriya 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 _____ | Chief Executive Officer and Chairman of the Board | March 30, 2007 |
| Harry Mund | | |
| /s/ Miron Markovitz _____ | Director, Chief Financial Officer and Principal Accounting Officer | March 30, 2007 |
| Miron Markovitz | | |

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.

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

| | Years Ended December 31, | |
|---|-----------------------------|-----------|
| | 2006 | 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 Shares | 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 |
| Acquisition 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) | |