

MICRONET ENERTEC TECHNOLOGIES, INC.

Form 10-Q

May 14, 2015

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED: March 31, 2015

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 001-35850

MICRONET ENERTEC 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.)

28 West Grand Avenue, Suite 3, Montvale,  
NJ

(Address of principal executive offices)

07645

(Zip Code)

(201) 225-0190  
(Registrant's telephone  
number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☒

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

Large accelerated filer ☐

Accelerated filer ☐

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

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of May 14, 2015, there were 5,856,246 issued and outstanding shares of the registrant’s Common Stock, \$0.001 par value per share.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

MICRONET ENERTEC TECHNOLOGIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (USD In Thousands, Except Share and Par Value Data)

	March 31, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,051	\$ 8,592
Marketable securities	6,224	6,406
Trade account receivables, net	12,744	14,152
Inventories	6,440	6,658
Other accounts receivable	1,224	1,249
Total current assets	32,683	37,057
Property and equipment, net	1,887	1,948
Intangible assets and others, net	4,160	4,416
Long term deposit	50	46
Goodwill	1,466	1,466
Total long term assets	7,563	7,876
Total assets	\$ 40,246	\$ 44,933

MICRONET ENERTEC TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(USD In Thousands, Except Share and Par Value Data)

	March 31, 2015	December 31, 2014
<b>LIABILITIES AND EQUITY</b>		
Short term bank credit and current portion of long term bank loans	\$ 9,964	\$ 9,416
Current portion of long term notes	-	1,000
Trade accounts payable	5,146	7,588
Other accounts payable	2,187	2,619
Total current liabilities	17,297	20,623
Long term loans from banks	3,557	3,919
Finance lease	44	56
Accrued severance pay, net	25	29
Deferred tax liabilities, net	43	57
Total long term liabilities	3,669	4,061
<b>Stockholders' Equity:</b>		
Preferred stock; \$.001 par value, 5,000,000 shares authorized, none issued and outstanding		
Common stock; \$.001 par value, 25,000,000 shares authorized, 5,856,246 shares issued and outstanding as of March 31, 2015 and December 31, 2014	6	6
Additional paid in capital	7,574	7,505
Accumulated other comprehensive income	(293)	325
Retained earnings	5,579	6,284
Micronet Enertec stockholders' equity	12,866	14,120
Non-controlling interests	6,414	6,129
Total equity	19,280	20,249
Total liabilities and equity	\$ 40,246	\$ 44,933

MICRONET ENERTEC TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(USD In Thousands, Except Share and Earnings Per Share Data)  
(Unaudited)

	Three months ended March 31,	
	2015	2014
Revenues	\$5,679	\$5,567
Cost of revenues	3,928	3,515
Gross profit	1,751	2,052
Operating expenses:		
Research and development	743	744
Selling and marketing	469	391
General and administrative	1,111	884
Amortization of intangible assets	302	93
Total operating expenses	2,625	2,112
Loss from operations	(874 )	(60 )
Finance expense, net	92	46
Loss before provision for income taxes	(966 )	(106 )
Provision for income taxes	(130 )	79
Net loss	(836 )	(185 )
Net loss (income) attributable to non-controlling interests	(131 )	147
Net loss attributable to Micronet Enertec	\$(705 )	\$(332 )
(*) Loss per share attributable to Micronet Enertec:		
Basic	\$(0.12 )	\$(0.06 )
Diluted	\$(0.12 )	\$(0.06 )
Weighted average common shares outstanding:		
Basic	5,856,246	5,831,246
Diluted	5,856,246	5,831,246

MICRONET ENERTEC TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(USD In Thousands)  
(Unaudited)

	Three months ended March 31,	
	2015	2014
Net loss	\$ (836)	\$ (185)
Other comprehensive income net of tax:		
Currency translation adjustment	(201)	(26)
Total comprehensive loss	(1,037)	(211)
Comprehensive income (loss) attributable to the non-controlling interests	(285)	71
Comprehensive loss attributable to Micronet Enertec Technologies, Inc.	(1,322)	(140)

MICRONET ENERTEC TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(USD In Thousands)  
(Unaudited)

	Three months ended March 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (836)	\$ (185)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	421	233
Marketable securities	196	125
Change in fair value of derivatives, net	(5)	(71)
Change in deferred taxes, net	(132)	(38)
Accrued interests on bank loans	(25)	6
Amortization of discount and change in value of long term convertible debenture, net	-	50
Stock based compensation	69	6
Changes in operating assets and liabilities (net of impact of acquisition):		
Decrease in trade account receivables	1,170	1,928
Decrease (increase) in inventories	158	(93)
Decrease in accrued severance pay, net	(4)	(34)
Decrease (increase) in other account receivables	137	(156)
Decrease in trade account payables	(2,443)	(716)
Decrease in other account payables	(438)	(1,052)
Net cash provided by (used in) operating activities	\$ (1,732)	\$ 3



MICRONET ENERTEC TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(USD In Thousands)  
(Unaudited)

	Three months ended March 31,	
	2015	2014
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(100)	(69)
Marketable securities	(14)	(121)
Net cash used in investing activities	\$ (114)	\$ (190)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Short term bank credit	807	46
Repayment of long-term bank loans	(288)	(786)
Repayment of long-term notes	(1,000)	-
Net cash used in financing activities	\$ (481)	\$ (740)
<b>NET CASH DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,327)</b>	<b>(927)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>8,592</b>	<b>12,825</b>
<b>TRANSLATION ADJUSTMENT OF CASH AND CASH EQUIVALENTS</b>	<b>(214)</b>	<b>61</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 6,051</b>	<b>\$ 11,959</b>

## NOTE 1 — DESCRIPTION OF BUSINESS

### Overview

A. Micronet Enertec Technologies, Inc., a U.S.-based Delaware corporation, was formed on January 31, 2002. On March 14, 2013, we changed our corporate name from Lapis Technologies, Inc. to Micronet Enertec Technologies, Inc. (“we,” “Micronet Enertec” or “the Company”).

We operate through two Israel-based companies, Enertec Systems 2001 Ltd (“Enertec”), our wholly-owned subsidiary, and Micronet Ltd (“Micronet”), in which we held 62.5% as of March 31, 2015 and is controlled by us.

Micronet is a publicly traded company on the Tel Aviv Stock Exchange and operates in the growing commercial Mobile Resource Management (“MRM”) market. Micronet through both its Israeli and U.S. operational offices designs, develops, manufactures and sells rugged mobile computing devices that provide fleet operators and field workforces with computing solutions in challenging work environments. Micronet’s vehicle cabin installed and portable tablets increase workforce productivity and enhance corporate efficiency by offering computing power and communication capabilities that provide fleet operators with visibility into vehicle location, fuel usage, speed and mileage. Micronet’s customers consist primarily of application service providers and solution providers specializing in the MRM market.

Enertec operates in the Defense and Aerospace markets and designs, develops, manufactures and supplies various customized military computer-based systems, simulators, automatic test equipment and electronic instruments. Enertec’s solutions and systems are designed according to major aerospace integrators’ requirements and are integrated by them into critical systems such as command and control, missile fire control, maintenance of military aircraft and missiles for use by the Israeli Air Force and Navy and by foreign defense entities.

### B. Micronet Acquisition of Beijer U.S. Vehicle Operations

On June 2, 2014, the Company, through Micronet, completed the acquisition of certain assets and liabilities (the “Transaction”), of Beijer Electronics Inc.’s. (the “Seller”) U.S. vehicle business and operations related to the supply of panels to various transportation sectors (the “Vehicle Business”). The total purchase price of the Transaction was \$7,105. The Vehicle Business results of operations were included in our consolidated reports commencing on the closing date. Upon the closing of the Transaction, Micronet incorporated a wholly-owned U.S.-based subsidiary in the state of Utah under the name Micronet Inc., through which the purchased business is conducted.

## NOTE 1 — DESCRIPTION OF BUSINESS - (continued)

## B. Micronet Acquisition of Beijer US Vehicle Operations- (continued)

The Transaction was financed through, among other funds, a loan granted to Micronet pursuant to a loan agreement (the “Loan Agreement”), entered between Micronet and the First International Bank of Israel (the “Bank” and the “Loan”, respectively). Under the Loan Agreement, the Bank loaned Micronet \$4,850 for the financing of the Transaction. Pursuant to the terms of the Loan Agreement, \$2,425 of the Loan bears interest at a quarterly adjustable rate of Prime plus 1.5 percent (3.75% percent as of the date of the Loan), (the “Long Term Portion”). The Long Term Portion plus interest is due and payable in twelve equal consecutive quarterly installments beginning on August 29, 2014. The balance of the loan in the amount of \$2,425 bears interest at a variable adjustable rate of Prime plus 1.2 percent (3.45% percent as of the date of the Loan) (the “Short Term Portion”). The Short Term Portion is due and payable within one year from the date of the Loan, subject to renewal, and the interest on the Short Term Portion is due and payable every quarter beginning on August 29, 2014. The Loan is secured mainly by a floating charge against Micronet's assets and a mortgage on a building owned by Micronet. The Loan is subject to customary covenants, terms, conditions, events of default and certain pre-payment provisions.

The purchase consideration was allocated to tangible assets and intangible assets acquired based on their estimated fair values using a purchase price allocation made by an independent third party appraisal. The fair value assigned to identifiable intangible assets acquired has been determined by using valuation methods that discount expected future cash flows to present value using estimates and assumptions determined by management. The Company determined that the fair values of assets acquired exceeded the purchase price by approximately \$1,466, which is recognized as goodwill. Upon the purchase price allocation, an amount of \$1,680 was allocated to technology to be amortized over a 5-year period, and an amount of \$2,552 was allocated to estimated fair value of the customer relations intangible asset to be amortized over a 5-year period. The table below summarizes the estimates of the fair value of assets acquired at the purchase date.

Inventories	\$1,360
Property and equipment	47
Identifiable intangible assets:	
Customer relations	2,552
Core technology	1,680
Goodwill	1,466
Total assets acquired	\$7,105

The contribution of the Vehicle Business results to our consolidated income and net income was \$1,892 and \$212, respectively, for the three months ended March 31, 2015.

## NOTE 1 — DESCRIPTION OF BUSINESS - (continued)

## B. Micronet Acquisition of Beijer US Vehicle Operations- (continued)

The unaudited pro forma financial information in the table below summarizes the combined results of our operations and those of the Vehicle Business for the periods shown as though the Transaction occurred as of the beginning of fiscal year 2014. The pro forma financial information for the periods presented includes the business combination accounting effects of the Transaction, including amortization charges from acquired intangible assets. The pro forma financial information presented below is for informational purposes only, is subject to a number of estimates, assumptions and other uncertainties, and is not indicative of the results of operations that would have been achieved if the Transaction had taken place at January 1, 2014. The unaudited pro forma financial information is as follows:

	Three Months Ended March 31, 2014
Total revenues	\$ 8,118
Net loss	\$ (142)

## 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 ("U.S. GAAP") for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission, or 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 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 March 31, 2015 and the results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2015 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, 2014. 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, 2014, and updated, as necessary, in this Quarterly Report on Form 10-Q.

## Use of Estimates

The preparation of the financial statements in conformity with U.S. 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.



NOTE 2 - BASIS OF PRESENTATION AND CONSOLIDATION (Cont.)

Principles of consolidation

The consolidated financial statements comprise the results and position of the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating activities. In assessing control, legal and contractual rights are taken into account. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control is achieved until the date that control is ceased. Intercompany transactions and balances are eliminated upon consolidation.

Recent Accounting Pronouncements

In January 2015, the Financial Accounting Standard Board ("FASB") issued Accounting Standard Update ("ASU") No. 2015-01 (ASU 2015-01), "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items". ASU 2015-01 eliminates the requirement to consider whether an underlying event or transaction is extraordinary, and if so, to separately present the item in the income statement net of tax, after income from continuing operations. Items that are either unusual in nature or infrequently occurring will continue to be reported as a separate component of income from continuing operations. Alternatively, these amounts may still be disclosed in the notes to the financial statements. The same requirement has been expanded to include items that are both unusual and infrequent. ASU 2015-01 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted from the beginning of the fiscal year of adoption. The Company does not expect material impacts on its consolidated financial statements upon adoption.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs". ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability in a manner consistent with the treatment for debt discounts. The amendments in this update do not affect the recognition and measurement guidance for debt issuance costs. In addition, ASU 2015-03 requires that the amortization of debt issuance costs be reported as interest expense. The standard is effective for fiscal years and the interim periods within those fiscal years beginning on or after December 15, 2015. ASU 2015-03 should be applied retrospectively to all prior periods presented in the financial statements, subject to the disclosure requirements for a change in an accounting principle. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect material impacts on its consolidated financial statements upon adoption.

NOTE 3 – FAIR VALUE MEASUREMENTS

The accounting guidance establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.

## NOTE 3 – FAIR VALUE MEASUREMENTS (Cont.)

Level 2 – Observable inputs such as quoted prices for similar instruments and quoted prices in markets that are not active, and inputs that are directly observable or can be corroborated by observable market data. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities.

Level 3 – Significant inputs to pricing that have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as the complex and subjective models and forecasts used to determine the fair value of financial instruments.

Financial assets and liabilities measured at fair value as of March 31, 2015 and December 31, 2014, are summarized below:

	Fair value measurements using input type			
	March 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 6,051	\$-	\$-	\$ 6,051
Marketable securities	6,224	-	-	6,224
Derivative liabilities	-	(47)	-	(47)
Derivative liabilities - Phantom option	-	(44)	-	(44)
	\$ 12,275	\$ (91)	\$-	\$ 12,184

	Fair value measurements using input type			
	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 8,592	\$-	\$-	\$ 8,592
Marketable securities	6,406	-	-	6,406
Derivative assets	-	29	-	29
Derivative liabilities - Phantom option	-	(49)	-	(49)
	\$ 14,998	\$ (20)	\$-	\$ 14,978

## NOTE 4 – INVENTORIES

Inventories are stated at the lower of cost or market, computed using the first-in, first-out method. Inventories consist of the following:

	March 31, 2015	December 31, 2014
Raw materials	\$ 5,662	\$ 6,009
Work in process	778	649
	\$ 6,440	\$ 6,658

## NOTE 5 – SEGMENTS

Operating segments are based upon our internal organization structure, the manner in which our operations are managed and the availability of separate financial information. Following the Acquisition, we have two operating segments: a defense and aerospace segment operated by Enertec and a mobile resource management segment operated by Micronet.

The following table summarizes the financial performance of our operating segments:

	Three months ended March 31, 2015		
	Defense and aerospace	Mobile resource management	Consolidated
Revenues from external customers	\$ 2,033	\$ 3,646	\$ 5,679
Segment operating loss	(89)	(1) (555)	(644)
Not allocated expenses			230
Finance expenses			(92)
Consolidated loss before provision for income taxes			\$ (966)

	Three months ended March 31, 2014		
	Defense and aerospace	Mobile resource management	Consolidated
Revenues from external customers	\$ 2,232	\$ 3,335	\$ 5,567
Segment operating income (loss)	(82)	(2) 257	175
Not allocated expenses			235
Finance expenses			(46)
Consolidated loss before provision for income taxes			\$ (106)

(1) Includes \$302 of intangible assets amortization, derived from Micronet and Micronet Inc. acquisitions.

(2) Includes \$93 of intangible assets amortization, derived from Micronet and Micronet Inc. acquisitions.



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

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other Federal securities laws, and is subject to the safe-harbor created by such Act and laws. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of other variations thereon or comparable terminology. The statements herein and their implications are merely predictions and therefore inherently subject to known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance levels of activity, or our achievements, or industry results to be materially different from those contemplated by the forward-looking statements. Such forward-looking statements appear in this Item 2 – "Management's Discussion and Analysis of Financial Condition and Results of Operations," and may appear elsewhere in this Quarterly Report on Form 10-Q and include, but are not limited to, statements regarding the following:

- Demand for our products as well as future growth, either through internal efforts, development of new products, potential segments and markets or through acquisitions;
- Leveraging our experience and other assets we possess to enhance Enertec's (as defined below) product offerings;
- Integration of the vehicle business operation we acquired from Seller in 2014;
- Levels of research and development costs in the future;
- Continuing control of at least a majority of Micronet's share capital;
- The organic and non-organic growth of our business;
- Our financing needs; and
- The sufficiency of our capital resources.

Our business and operations are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained or implied in this report. Except as required by law, we assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. Further information on potential factors that could affect our business is described under the heading "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Readers are also urged to carefully review and consider the various disclosures we have made in that report. The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

## Overview

We operate primarily through two Israel-based companies, Enertec our wholly-owned subsidiary, and Micronet in which we have a controlling interest, which develop, manufacture, integrate and globally market rugged computers, tablets and computer-based systems and instruments for the commercial, defense and aerospace markets. Our products, solutions and services are designed to perform in severe environments and battlefield conditions.

Micronet is a publicly-traded company on the Tel Aviv Stock Exchange and operates in the growing commercial MRM market and is a global developer, manufacturer and provider of mobile computing platforms, designed for integration into fleet management and mobile workforce management solutions. In June 2014, Micronet expanded its MRM business and operations in the U.S. market through the acquisition of the Vehicle Business for \$7.1 million, and as a result adding to its business U.S.-based facilities which include manufacturing and technical support infrastructure, sales and marketing capabilities as well as expanding its U.S. customer base and presence with local fleets and local MRM service providers. As a result of this acquisition, Micronet currently operates via its Israeli and U.S. facilities, the first located in Azur, Israel, near Tel Aviv, and the second located in Salt Lake City, Utah.

Enertec operates in the defense and aerospace markets and designs, develops, manufactures and supplies various customized military computer-based systems, simulators, automatic test equipment and electronic instruments. Enertec's solutions and systems are designed according to major aerospace integrators' requirements and market technological needs and are integrated by them into critical systems such as command and control, missile fire control, maintenance of military aircraft and missiles for use by the Israeli Air Force, Israeli Navy and by foreign defense entities.

Our strategy is driven and focused on continued internal growth through diligent efforts in our traditional growing markets with new technologies and innovative systems and products as well as the development of new potential segments and markets. Concurrent with our efforts to grow organically and in line with our strategy, we will continue to seek acquisitions that will complement and expand our product offerings, support our goals and increase our competitiveness. In order to help achieve our internal growth, we have expanded our production capacity and facilities. The acquisition of Micronet, or the Acquisition in September 2012 and the Transaction serve our strategy to grow our business, and we believe that Micronet and its research and development, proprietary know-how and manufacturing capabilities will assist us in expanding our capability to provide turnkey solutions of computer based complex systems and solutions for commercial defense and aerospace applications as well. We strongly believe that by utilizing Micronet as our commercial arm we will be able to access new market segments and new customers, thereby increase our overall customer base. Our current target markets, in which we concentrate the majority of our resources, include primarily the US market, the Israeli domestic market and the European market.

## Non-GAAP Financial Measures

In addition to providing financial measurements based on generally accepted accounting principles in the U.S., or GAAP, we provide additional financial metrics that are not prepared in accordance with GAAP, or non-GAAP financial measures. Management uses non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes and to evaluate our financial performance.

Management believes that these non-GAAP financial measures reflect our ongoing business in a manner that allows for meaningful comparisons and analysis of trends in our business, as they exclude expenses and gains that are not reflective of our ongoing operating results. Management also believes that these non-GAAP financial measures provide useful information to investors in understanding and evaluating our operating results and future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies.

The non-GAAP financial measures do not replace the presentation of our GAAP financial results and should only be used as a supplement to, not as a substitute for, our financial results presented in accordance with GAAP.

The non-GAAP adjustments, and the basis for excluding them from non-GAAP financial measures, are outlined below:

- Amortization of acquired intangible assets - We are required to amortize the intangible assets, included in our GAAP financial statements, related to the Transaction and the Acquisition. The amount of an acquisition's purchase price allocated to intangible assets and term of its related amortization are unique to these transactions. The amortization of acquired intangible assets are non-cash charges. We believe that such charges do not reflect our operational performance. Therefore, we exclude amortization of acquired intangible assets to provide investors with a consistent basis for comparing pre- and post-transaction operating results.
- Amortization of note discount and related expenses - These interest expenses are non-cash and are related to amortization of discount of the UTA Capital LLC, or UTA, notes, the last of which was paid in January 2015. Such expenses do not reflect our on-going operations and all of them were incurred up to the end of fiscal 2014.
- Change in fair value of call options and warrants – The change in fair value of the call options relating to the Acquisition is recorded as interest expense. The change in fair value is derived primarily from Micronet's share price and does not reflect our on-going operations.
- Stock-based compensation is share based awards granted to certain individuals. They are non-cash and affected by our historical stock prices which are irrelevant to forward-looking analyses and are not necessarily linked to our operational performance.
- Expenses related to the purchase of a business - These expenses relate directly to the purchase of the Vehicle Business and consist mainly of legal and accounting fees, finder's fees and travel expenses. We believe that these expenses do not reflect our operational performance. Therefore, we exclude them to provide investors with a consistent basis for comparing pre- and post-Vehicle Business purchase operating results.

## Non-GAAP Financial Measures (Cont.)

The following table reconciles, for the periods presented, GAAP net loss attributable to Micronet Enertec to non-GAAP net income attributable to Micronet Enertec and GAAP loss per diluted share attributable to Micronet Enertec to non-GAAP net income per diluted share attributable to Micronet Enertec:

	Three months ended March 31, (Dollars in thousands, other than share and per share amounts)	
	2015	2014
GAAP net loss attributable to Micronet Enertec Technologies, Inc.	\$ (705)	\$ (332)
Amortization of acquired intangible assets	189	49
Change in fair value of call options and warrants	-	(73)
Amortization of note discount and related expenses	-	50
Stock-based compensation	69	6
Income tax-effect of above non-GAAP adjustments	(9)	(7)
Total Non-GAAP net loss attributable to Micronet Enertec Technologies, Inc.	\$ (456)	\$ (307)
Non-GAAP net loss per diluted share attributable to Micronet Enertec Technologies, Inc.	(0.08)	(0.05)
Shares used in per share calculations	5,856,246	5,831,246
GAAP net loss per diluted share attributable to Micronet Enertec Technologies, Inc.	(0.12)	(0.06)
Shares used in per share calculations	5,856,246	5,831,246

## Results of Operations

## Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

Revenues for the three months ended March 31, 2015 were \$5,679,000, compared to \$5,567,000 for the three months ended March 31, 2014. This represents an increase of \$112,000, or an increase of 2%, for the three months ended March 31, 2015. The increase in revenues for the three months ended March 31, 2015, is primarily due to an increase in Micronet's revenues of \$311,000 resulting from a new customer out of which \$1,893,000 derived from the vehicles acquired business. Enertec's revenues decreased by \$199,000, or 9%, for the three months ended March 31, 2015, compared to the previous period last year mainly due to an increase of New Israeli Shekel, or NIS, to U.S. dollar exchange rate.

Total revenues related to the aerospace and defense segment for the three months ended March 31, 2015 were \$2,033,000 as compared to \$2,232,000 for the three months ended March 31, 2014. Total revenues related to the MRM segment for the three months ended March 31, 2015 were \$3,646,000, as compared to \$3,335,000 for the three months ended March 31, 2014.

Gross profit decreased by \$301,000, to \$1,751,000, and represents 31% of the revenues for the three months ended March 31, 2015. This is in comparison to gross profit of \$2,052,000 which represented 37% of the revenues for the three months ended March 31, 2014. Micronet's gross profit decreased from 47% in the three months ended March 31, 2014 to 35%, for the same period in 2015, mainly due to a reduction of unit volumes and prices to a major client. Enertec's gross profit increased from 21% in the three months ended March 31, 2014 to 23% for the same period in 2015, mainly due to changes in product mix.

## Selling and Marketing

Selling and marketing costs are part of operating expenses. Selling and marketing costs for the three months ended March 31, 2015 were \$469,000, compared to \$391,000 for the three months ended March 31, 2014. This represents an increase of \$78,000, or 20% for the three months ended March 31, 2015. The increase is primarily due to enlarging the sales team of our MRM operation in the United States and travel expenses.

## General and Administrative

General and administrative costs are part of operating expenses. General and administrative costs for the three months ended March 31, 2015 were \$1,111,000, compared to \$884,000 for the three months ended March 31, 2014. This represents an increase of \$227,000, or 26% for the three months ended March 31, 2015. The increase is mainly due to approximately \$232,000 of costs related to the initial consolidation of the Vehicle Business for the three months ended March 31, 2015.

## Research and Development Costs

Research and development costs are part of operating expenses. Research and development costs which include mainly wages, materials and sub-contractors, for the three months ended March 31, 2015 were \$743,000, compared to \$744,000 for the three months ended March 31, 2014.

## Net Loss from operations

Our net loss from operations for the three months ended March 31, 2015 was \$874,000, compared to net loss from operations of \$60,000 for the three months ended March 31, 2014. The decrease is mainly a result of the decrease in gross profit and increase in operating expenses as described above.

## Finance Expenses, net

Finance expenses net, for the three months ended March 31, 2015 were \$92,000, compared to expenses of \$46,000 for the three months ended March 31, 2014. This represents an increase of \$46,000 for the three months ended March 31, 2015. The increase in finance expense in the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 was primarily due to increases in interest and bank commissions as well as exchange rate differences.

## Net Income (loss) attributed to Micronet Enertec Technologies, Inc.

Our net loss attributed to Micronet Enertec Technologies, Inc. was \$705,000 in the three months ended March 31, 2015, compared to net loss of \$332,000 in the three months ended March 31, 2014. This represents an increase in net loss of \$373,000 as compared to the same period last year. The increase in net loss is attributed to the decrease in revenues and in gross profit margin as mentioned above.

## Liquidity and Capital Resources

The Company finances its operations through current revenues, loans and securities offerings. The loans are divided into various bank loans, as described below.

## Liquidity and Capital Resources (Cont.)

As of March 31, 2015, our total cash and cash equivalents and marketable securities balance was \$12,275,000 (of which marketable securities amounted to \$6,224,000), as compared to \$14,998,000 (of which marketable securities amounted to \$6,406,000), as of December 31, 2014. This reflects a decrease of \$2,723,000 in cash and cash equivalents and marketable securities. The decrease in cash and cash equivalents is primarily a result of repayments of loans to banks and others and due to our negative operating cash flow for the period.



In connection with our acquisition of the Vehicle Business, Micronet entered into a loan agreement, or the FIBI Loan Agreement, with the First International Bank of Israel, or FIBI. Under this agreement, FIBI loaned Micronet \$4,085,000 for the financing of this acquisition. Pursuant to the terms of the FIBI Loan Agreement, \$2,425,000 of the loan bears interest at a quarterly adjustable rate of Prime plus 1.5 percent (3.75% percent as of the date of the loan), or the Long Term Portion. The Long Term Portion plus interest is due and payable in twelve equal consecutive quarterly installments beginning on August 29, 2014. The balance of the loan in the amount of \$2,425,000 bears interest at a quarterly adjustable rate of Prime plus 1.2% (3.45% as of the date of the loan), or the Short Term Portion. The Short Term Portion is due and payable within one year from the date of the loan, and the interest on the Short Term Portion is due and payable every quarter beginning on August 29, 2014. The loan is secured mainly by a floating charge against Micronet's assets and a mortgage on a building owned by Micronet. The loan is subject to customary covenants, terms, conditions, events of default and certain pre-payment provisions. As of March 31, 2015, the balance on this loan (the Long Term Portion and the Short Term Portion) was approximately 3,747,000 and the interest rates were Prime plus 1.2% and Prime plus 1.5% for the Short Term Portion and the Long Term Portion, respectively.

On June 17, 2014, Enertec entered into a loan agreement, or the Mercantile Loan Agreement, with Mercantile Discount Bank Ltd., or Mercantile Bank, pursuant to which Mercantile Bank agreed to loan the Company approximately \$3,631,000 on certain terms and conditions, or the Mercantile Loan. The proceeds of the Mercantile Loan were used by the Company: (1) to refinance previous loans granted to the Company in the amount of approximately \$1,333,000; (2) to complete the purchase by the Company, via Enertec, of 1.2 million shares of Micronet constituting 6.3% of the issued and outstanding shares of Micronet; and (3) for working capital and general corporate purposes.

Pursuant to the terms of the Mercantile Loan Agreement: (1) approximately \$3,050,000 of the Mercantile Loan bears interest at a quarterly adjustable rate of Prime plus 2.45 percent, or the Mercantile Long Term Portion, and (2) approximately \$581,000 of the Mercantile Loan bears interest at a quarterly adjustable rate of Prime plus 1.7 percent, or the Mercantile Short Term Portion. The Mercantile Long Term Portion is due and payable in five equal consecutive annual installments beginning on July 1, 2015, and the interest on the Mercantile Long Term Portion is due and payable in ten equal consecutive annual installments beginning at January 1, 2015. The Mercantile Short Term Portion in the amount of approximately \$581,000 bears interest of Prime plus 1.7%. The Mercantile Loan is secured mainly by (1) a negative pledge on Enertec's assets, (2) a pledge of Enertec's financial deposits which shall be equal to 25% of Enertec's outstanding credit balance, and (3) a fixed charge of Micronet shares at such value equal to at least 200% of the outstanding net balance of the Mercantile Loan. The Mercantile Loan is subject to customary covenants, terms, conditions, events of default and certain pre-payment provisions. As of March 31, 2015, the balance on the Mercantile Loan was \$3,130,000 and the interest rates were Prime plus 2.45% and Prime plus 1.7%. for the Mercantile Long Term Portion and the Mercantile Short Term Portion, respectively.

#### Liquidity and Capital Resources (Cont.)

Pursuant to the terms of the Mercantile Loan Agreement, the parties agreed to grant Mercantile Bank a five-year Phantom Stock Option, or the Phantom Stock Option, pursuant to which Mercantile Bank is entitled to participate in the future appreciation of the Company's shares and receive a cash amount equal to the increase in the value of the shares underlying the Phantom Stock Option on certain terms and conditions. The Phantom Stock Option allows Mercantile Bank to theoretically exercise, on a cashless basis, options to purchase 1,144,820 shares of Micronet, or the Option Shares, and to receive a cash amount equal to the difference between approximately 4 million NIS, (representing 110 percent of the average market value of Micronet Option Shares during the 30 trading days prior to the date of the Mercantile Loan) and the actual market price of such Option Shares on the date of the exercise of the Phantom Stock Option. Pursuant to the Mercantile Loan Agreement, the parties further agreed that the potential gain to Mercantile Bank resulting from the Phantom Stock Option shall not exceed NIS 3,000,000. In the event the Mercantile Loan is repaid prior to the third anniversary of the Mercantile Loan, the gain to Mercantile Bank resulting from the Phantom Stock Option shall not exceed NIS 2,000,000. As of the date of the Mercantile Loan the exercise



price of the Phantom Stock Options is higher than the market price of the Option Shares. As of March 31, 2015, the fair value of this Phantom Stock Option was \$44,000.

On July 12, 2011, the Company entered into a Note and Warrant Purchase Agreement with UTA or the Purchase Agreement (and as amended by that certain letter agreement dated as of August 16, 2011, and as further amended by that certain Second Amendment to Note and Warrant Purchase Agreement dated as of August 31, 2011 and that certain Third Amendment to Note and Warrant Purchase Agreement dated as of November 24, 2011, the Original Agreement), pursuant to which UTA agreed to provide financing to the Company on a secured basis.

In May 2013, the Company repaid certain of its debt to UTA in the total amount of \$1,185,000. In June 2013, the Company repaid additional amounts of its debt to UTA pursuant to a certain promissory note in a total amount of \$282,000. On January 10, 2015, the Company repaid all of its remaining debt to UTA in the amount of \$1,000,000.

As of March 31, 2015, our total current assets were \$32,683,000, as compared to \$37,057,000 at December 31, 2014. The decrease is mainly due to the decrease in cash and cash equivalents and in trade accounts receivable as described above.

Our trade accounts receivable at March 31, 2015 were \$12,744,000 as compared to \$14,152,000 at December 31, 2014. The decrease is primarily due to the reduction in accounts receivable of Enertec as a result of a decrease in revenues for the three months ended March 31, 2015

As of March 31, 2015, our working capital was \$15,386,000, as compared to \$16,434,000 at December 31, 2014. The decrease in the working capital is primarily due to the decrease in cash and cash equivalents and decrease in trade accounts receivable.

As of March 31, 2015, our total debt was \$13,521,000 as compared to \$14,335,000 at December 31, 2014. The decrease in our total debt is mainly due to the repayment all of the remaining debt to UTA in the amount of \$1,000,000 on January 10, 2015.

#### Liquidity and Capital Resources (Cont.)

Our bank and other debt is composed of short-term loans amounting to \$9,964,000 as of March 31, 2015 compared to \$10,416,000 at December 31, 2014, and long-term loans amounting to \$3,557,000 as of March 31, 2015 compared to \$3,919,000 at December 31, 2014. The decrease is mainly due repayments of loans to various banks and others.

Our debt includes our bank debt described above and a working capital credit facility:

- Our bank debt is composed of short-term loans to Enertec Electronics Ltd, Enertec and Micronet amounting to \$9,964,000 as of March 31, 2015 compared to \$9,416,000 at December 31, 2014, and long-term loans amounting to \$3,557,000 as of March 31, 2015 compared to \$3,919,000 at December 31, 2014. The short-term loans bear interest rates between Israeli prime (currently 1.65%) plus 0.7% to 2.45%. The long-term loans have maturity dates between May 2017 and July 2019 and bear interest rates between Israeli Prime plus 1.25% to 2.45%.

Enertec has covenanted under its bank loans, among other things that (1) its shareholder's equity according to its financial statements will not fall below NIS 17 million, and (2) its shareholder's equity will not be lower than 30% of the total liabilities on its balance sheet. Enertec has met all of its bank covenants as of March 31, 2015.

- Enertec Electronics has covenanted under its bank loan mainly that the Company will present separate financial statements equity of not less than 32.5% of total assets. Enertec Electronics has met all of its bank covenants as of March 31, 2015.
- In addition, Micronet has undertaken under its bank loan documents the following primary financial covenants: (1) The aggregate amount of deposits and marketable securities will not less than 85% of the aggregate amount of the loans; (2) a minimum equity of NIS 30 million and (3) total solvency ratio of not less than 30%. Micronet has met all of its bank covenants as of March 31, 2015.

#### 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 organic and non-organic growth of our business. Among other activities, we plan to 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 (1) the levels and costs of our research and development initiatives, (2) the cost of hiring, training and certifying additional highly skilled professionals (mainly engineers and technicians), and maintaining our management including sales and marketing personnel to promote our products, and (3) the cost and timing of the expansion of our development, manufacturing and marketing efforts.

#### Financing Needs (Cont.)

The Company had paid the balance of the UTA loan in January 2015 and expects to pay off the current portion of certain bank loans in the amount \$1,492,000 using its cash flow from operations or possibly additional debt or equity financings.

The Company has an effective Form S-3 registration statement, filed under the Securities Act of 1933, as amended, with the Securities and Exchange Commission using a "shelf" registration process. Under this shelf registration process,

the Company may, from time to time, sell common stock, warrants or units in one or more offerings up to a total dollar amount of \$30 million.

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, we believe that we may need to raise additional funds if we want to materially decrease our dependence on our existing cash and other liquidity resources. 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. However, we may also undertake additional debt or equity financings (including sales of common stock, warrants or units under our shelf registration statement) to better enable us to grow and meet our future operating and capital requirements. There is no assurance that we will be able to consummate such offerings on favorable terms or at all.

#### 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.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risks.

Not applicable

#### Item 4. Controls and Procedures.

##### Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (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 March 31, 2015. Based upon that evaluation, the Company’s CEO and CFO 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 control over financial reporting

No change occurred in the Company’s internal control over financial reporting during the quarterly period ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

## PART II- OTHER INFORMATION

### Item 5. Other Information

On May 13, 2015, the Board of Directors (the "Board") of the Company appointed Mr. Eyal Leibovitz as its Chief Financial Officer effective July 12, 2015 and approved the terms of his employment pursuant to the Employment Agreement between the Company and Mr. Leibovitz dated May 13, 2015 (the "Employment Agreement").

Mr. Leibovitz brings extensive and proven experience in similar positions with global companies operating in international markets and related industries. Prior to joining the Company, Mr. Leibovitz served for 4 years (2011-2015) as Chief Financial Officer of N-trig Inc. a provider of touch and pen (electronic inking) solutions, and prior to that for 4 years (2007-2011) as Chief Financial Officer of Kamada Ltd a biopharmaceutical company, currently traded on NASDAQ (KMDA) and the Tel Aviv Stock Exchange. Mr. Leibovitz holds a B.A. in Business Administration from City University of New York, USA.

Pursuant to the Employment Agreement, Mr. Leibovitz will receive: (i) a monthly salary reflecting company cost of 59,000 NIS (approximately US\$15,325 currently); (ii) shall be entitled to a car; (iii) shall be entitled to receive bonuses and options as shall be determined by the Board in consultation with the Company's Chief Executive Officer; and (iv) shall be entitled to customary Israeli pension funds and other social benefits. The Employment Agreement is not limited to a certain duration. The Employment Agreement is terminable by either party at any time by providing 90 days' prior written notice. The Employment Agreement also contains customary confidentiality, non-competition and non-solicitation provisions.

No family relationships exist between Mr. Leibovitz and any of the Company's directors or other executive officers. There are no arrangements between Mr. Leibovitz and any other person pursuant to which Mr. Leibovitz was selected as an officer, nor are there any transactions to which the Company is or was a participant and in which Mr. Leibovitz has a material interest subject to disclosure under Item 404(a) of Regulation S-K.

Mrs. Tali Dinar, former Chief Financial Officer of the Company shall remain in the position as Chief Financial Officer of Enertec Electronics Ltd, the Company's wholly-owned subsidiary, and was appointed on May 13, 2015 as Chief Financial Officer of Micronet Ltd in which the Company has a controlling interest.

### Item 6. Exhibits.

#### Exhibit

Number	Description
3.1	Composite Copy of the Certificate of Incorporation of the Company, as amended to date (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 (File No. 333-199752), filed with the Securities and Exchange Commission on October 31, 2014.).
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.5 of Amendment No. 2 to our Registration Statement on Form S-1 (File No. 333-185470), filed with the Securities and Exchange Commission on March 18, 2013).
31.1*	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.

32.2\*\* Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

101\* The following materials from Micronet Enertec Technologies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

\* Filed herewith

\*\* Furnished herewith

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SIGNATURES

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

MICRONET ENERTEC  
TECHNOLOGIES, INC.

Date: May 14, 2015

By: /s/ David Lucatz  
Name: David Lucatz  
Title: Chairman, President  
and Chief Executive  
Officer (Principal Executive  
Officer)

Date: May 14, 2015

By: /s/ Tali Dinar  
Name: Tali Dinar  
Title: Secretary and Chief  
Financial  
Officer (Principal Financial  
Officer)



## EXHIBIT INDEX

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