

MICRONET ENERTEC TECHNOLOGIES, INC.

Form 10-Q

May 30, 2013

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, 2013

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.)

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

07630
(Zip Code)

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

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

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

Yes 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 24, 2013, there were 5,588,246 issued and outstanding shares of the Registrant's Common Stock, \$0.001 par value.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

MICRONET ENERTEC TECHNOLOGIES, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (US\$ In Thousands, except Share and Par Value data)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,428	\$ 10,611
Marketable securities	3,327	3,183
Trade account receivables, net	9,689	9,914
Inventories	5,938	7,392
Derivative asset - call options	632	945
Other account receivable	2,387	1,939
Total current assets	33,401	33,984
Property, and equipment, net	2,363	2,269
Intangible assets and others, net	1,315	1,635
Long term deposit	43	43
Total long term assets	3,721	3,947
Total assets	\$ 37,122	\$ 37,931

	March 31, 2013 (Unaudited)	December 31, 2012
LIABILITIES AND EQUITY		
Short term bank credit and current portion of long term bank loans	\$ 5,582	\$ 4,689
Current portion of long term notes and convertible debenture, net of discount	2,255	1,671
Trade account payables	4,375	4,701
Other account payables	2,810	3,420
Derivative liabilities - put option	58	73
Total current liabilities	15,080	14,554
Long term loans from banks	3,245	3,941
Long term notes, net of discount	895	1,370
Accrued severance pay, net	264	1,138
Deferred tax liabilities, net	155	60
Total long term liabilities	4,559	6,509
Stockholders' Equity:		
Preferred stock; \$.001 par value, 5,000,000 shares authorized, none issued and outstanding		
Common stock; \$.001 par value, 100,000,000 shares authorized, 3,968,246 shares issued and outstanding as of March 31, 2013	4	3
Additional paid in capital	1,432	957
Accumulated other comprehensive income	801	233
Retained earnings	8,457	8,918
Micronet Enertec stockholders equity	10,694	10,111
Non-controlling interests	6,789	6,757
Total equity	17,483	16,868
Total liabilities and equity	\$ 37,122	\$ 37,931

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

	Three months ended March 31,	
	2013	2012
Revenues	\$10,361	\$1,952
Cost of revenues	6,714	1,359
Gross profit	3,647	593
Operating expenses:		
Research and development	709	56
Selling and marketing	314	93
General and administrative	784	405
Amortization of intangible assets	378	-
Total operating expenses	2,185	554
Income from operations	1,462	39
Interest expense, net	(1,131)	(163)
Other income	-	4
Income before provision for income taxes	331	(120)
Taxes on income	(119)	(1)
Equity in profit of affiliated company		(28)
Net income	212	(149)
Net income attributable to non-controlling interests	673	-
Net loss attributable to Micronet Enertec	(461)	(149)
Loss per share attributable to Micronet Enertec		
Basic and diluted	\$(0.13)	\$(0.05)
Weighted average common shares outstanding:		
Basic and diluted	3,483,749	3,241,500

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

	Three months ended	
	March 31,	
	2013	2012
Net income (loss)	\$212	\$(149)
Other comprehensive income (loss), net of tax:		
Currency translation adjustment	609	(141)
Total comprehensive income (loss)	821	(290)
Comprehensive loss attributable to the non-controlling interests	(714)	-
Comprehensive income (loss) attributable to Micronet Enertec	\$107	\$(290)

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

	Three months ended March 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$212	\$(149)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	381	22
Marketable securities	(39)	
Change in fair value of derivatives, net	298	(8)
Equity in loss of affiliated company	-	30
Change in deferred taxes, net	(5)	-
Accrued interests on bank loans	72	-
Amortization of discount of long term notes and convertible debenture, net	585	-
Changes in operating assets and liabilities :		
Decrease in trade account receivables	547	2,913
Decrease (increase) in inventories	1,722	(101)
Decrease in accrued severance pay, net	(874)	(26)
Increase in other account receivables	(348)	(146)
Decrease in trade account payables	(325)	(113)
Decrease in other account payables	(656)	-
Net cash used in operating activities	\$1,570	\$2,422

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

	Three months ended March 31,	
	2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in long term deposit and restricted cash	-	(3)
Purchase of property and equipment	(112)	(279)
Marketable securities	(104)	-
Net cash used in investing activities	(216)	(282)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short term bank credit	650	1,540
Repayment of long term debt to banks	-	(53)
Repayment of Short term loans	(525)	-
Proceeds from long-term debt	-	22
Dividend paid to noncontrolling interest	(681)	-
Net cash provided by (used in) financing activities	(556)	1,509
NET CASH DECREASE IN CASH AND CASH EQUIVALENTS	798	3,649
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	10,611	940
TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	19	(141)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$11,428	\$4,448

MICRONET ENERTEC TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(US\$ In Thousands, Except Per Share Values)
(Unaudited)

NOTE 1 - DESCRIPTION OF BUSINESS

A. Overview

Micronet Enertec Technologies, Inc. (formerly known as Lapis Technologies, Inc.), a U.S. based Delaware corporation formed in Delaware 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 subsidiaries, wholly-owned Enertec Systems 2001 Ltd (“Enertec Systems”) and 51% owned Micronet Ltd (“Micronet”), over which we have legal and effective control.

Micronet is a publicly traded company on the Tel Aviv Stock Exchange (“TASE”) and operates in the growing commercial Mobile Resource Management, or MRM market. Micronet 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 (“ASPs”) and solution providers specializing in the MRM market.

Enertec Systems 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 Systems’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

On September 7, 2012, we, through our wholly-owned subsidiary Enertec Electronics Ltd., an Israeli corporation (“Enertec Electronics”), acquired from three Israeli individuals who collectively were the former controlling shareholders (the “Sellers”), 47.5% of the issued and outstanding shares of Micronet pursuant to a stock purchase agreement, or the Agreement. Pursuant to partial exercise of certain options, we currently own approximately 51% of the outstanding shares of Micronet common stock. As a result of the consummation of the Micronet acquisition (the “Acquisition”), we have become the largest shareholder of Micronet and the legal controlling entity because we have the ability to nominate the majority of the members of Micronet’s board of directors, which gives us control of Micronet’s operations.

Pursuant to the terms of the Agreement we acquired 8,256,000 ordinary shares of Micronet for 17.3 million NIS (approximately \$4.3 million), divided pro rata among Sellers. The Acquisition was financed based partly on our own resources and partly by means of a loan from UTA Capital (see reference to note 8). The Agreement also includes two call options granted to Micronet Enertec and a put option granted to Sellers. Pursuant to the initial call option, we are entitled to purchase from the Sellers, during the period beginning on the closing of the transaction and for 11 months thereafter, up to additional 996,000 ordinary shares of Micronet (5.49% of Micronet’s issued and outstanding shares) for a price of 2.1 NIS (approximately \$0.575 per share) per share as adjusted based on the Israeli consumers index. Under the second call option, we are entitled to purchase from the Sellers up to additional 1,200,000 ordinary shares of Micronet.

The second call option is in effect for the period that begins on the one-year anniversary of the closing of the transaction and ends on the 21-month anniversary of the closing of the transaction (6.62% of Micronet's issued and outstanding shares) for a price of 2.1 NIS per share as adjusted based on the Israeli consumers index (reflecting \$0.575 per share at December 31, 2012) plus 25% of Micronet's 2012 gross profit per share based on Micronet's issued and outstanding shares as of December 31, 2012, up to maximum of 18,850,000 shares, but in any event such price per share shall not exceed 3 NIS (\$0.822 per share at March 31, 2013). Pursuant to the put option granted to Sellers, Sellers can cause the sale of up to an additional 1,000,002 ordinary shares constituting 5.73% of Micronet's issued and outstanding shares for a price of 2.2 NIS per share (\$0.603 per share at March 31, 2013) as adjusted based on the Israeli customers index. The put option is in effect for the period that begins on the one-year anniversary of the closing of the transaction and ends on the 22-month anniversary of the closing of the transaction. Micronet's results of operations and balance sheet were included in our consolidated reports commencing in the closing date. Acquisition costs amounting to \$65 were charged to general and administrative expenses.

The purchase consideration was allocated to the tangible assets and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date. 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. These estimates are subject to revision, which may result in significant adjustments to the values presented below, when the appraisals are finalized. The Company determined that the fair values of net assets acquired exceeded the purchase price by \$4,623, which was recorded as a bargain purchase gain, and is shown as separate non-operating income. The gain is not taxable income for tax purposes. The gain was largely determined by the following reasons:

- Micronet is a publicly-traded company on the TASE. The purchase price takes into consideration the average price per Micronet share for the 12 month period prior to the Closing Date. The average price per Micronet share for the 12 month period prior to the Closing Date was approximately 2.2 NIS, whereas the purchase price was 2.1 NIS.
- In addition to the cash consideration paid in the transaction as aforementioned, additional consideration for the Sellers is attributable to their expectation that the new controlling shareholders of Micronet together with the management team, will be able to use their experience, abilities and expertise to increase Micronet's value and thereby increase the value of the remaining shares held by the Sellers. Accordingly, the transaction was structured so that the Sellers continue to be stockholders of Micronet. The Sellers hold approximately 30% of the company's outstanding share capital following the Acquisition.
- Approximately 40% of the gain is created following the technical measurement of non-controlling interest at fair value which is much lower than the non-controlling interests' proportionate share of identifiable net assets.

Purchased identifiable intangible assets are amortized on a straight-line basis over their respective useful lives. The table set forth below summarizes the estimates of the fair value of assets acquired and liabilities assumed and resulting gain on bargain purchase.

	U.S. \$ in Thousands
Current assets	\$ 19,492
Derivative asset- call options	404
Property, plant and equipment, net	1,400
Other non- current assets	267
Identifiable intangible assets:	
Customer relations	918
Backlog	712
Technology	330
Total assets acquired	23,523
Current liabilities	