MICRONET ENERTEC TECHNOLOGIES, INC.
Form 10-Q
November 06, 2014

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED: September 30, 2014

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 x No o

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

Yes x No o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

Yes o No x

As of November 6, 2014, there were 5,831,246 issued and outstanding shares of the registrant's Common Stock, $0.001 par value per share.

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PART I - FINANCIAL INFORMATION

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

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$6,864	$12,825
Marketable securities	6,617	6,969
Trade accounts receivable, net	15,528	13,467
Inventories	7,239	4,324
Derivative asset - call options	-	460
Other account receivable	1,338	1,165
Total current assets	37,586	39,210
Property, and equipment, net	2,113	2,440
Intangible assets and others, net	4,736	1,076
Goodwill	1,466	-
Long term deposit	51	103
Total long term assets	8,366	3,619
Total assets	$45,952	$42,829

	September 30, 2014 (Unaudited)	December 31, 2013
LIABILITIES AND EQUITY		
Short term bank credit and current portion of long term bank loans	$ 8,898	$ 5,058
Current portion of long term notes, net of discount	994	-
Trade accounts payable	7,656	4,361
Other accounts payable	2,673	3,355
Total current liabilities	20,221	12,774
Long term loans from banks and others	4,346	3,130
Long term notes, net of discount	-	933
Finance lease	71	109
Accrued severance pay, net	67	172
Deferred tax liabilities, net	71	113
Total long term liabilities	4,555	4,457
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, 5,831,246 shares issued and outstanding as of September 30, 2014 and December 31, 2013	6	6
Additional paid in capital	7,122	8,053
Accumulated other comprehensive income	1,221	1,389
Retained earnings	6,312	8,423
Micronet Enertec Technologies, Inc. stockholders' equity	14,661	17,871
Non-controlling interests	6,515	7,727
Total equity	21,176	25,598
Total liabilities and equity	$ 45,952	$ 42,829

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

	Nine months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013
Revenues	$23,568	$26,088	$11,415	$7,956
Cost of revenues	16,790	15,984	8,546	4,366
Gross profit	6,778	10,104	2,869	3,590
Operating expenses:				
Research and development	2,164	2,144	546	755
Selling and marketing	1,209	954	449	276
General and administrative	4,219	2,873	1,738	1,223
Amortization of intangible assets	557	564	306	93
Total operating expenses	8,149	6,535	3,039	2,347
Income (loss) from operations	(1,371)	3,569	(170)	1,243
Financial expenses, net	(811)	(2,119)	(178)	(271)
Income (loss) before provision for income taxes	(2,182)	1,450	(348)	972
Taxes on income	9	298	46	168
Net income (loss)	(2,191)	1,152	(394)	804
Net income (loss) attributable to non-controlling interests	(80)	1,763	112	726
Net Income (loss) attributable to Micronet Enertec Technologies, Inc.	$(2,111)	$(611)	$(506)	$78
Loss (earnings) per share attributable to Micronet Enertec Technologies, Inc.				
Basic and diluted	$(0.36)	$(0.13)	$(0.09)	$0.01
Weighted average common shares outstanding:				
Basic and diluted	5,831,246	4,841,747	5,831,246	5,831,246

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

	Nine months ended September 30, 2014	Nine months ended September 30, 2013	Three months ended September 30, 2014	Three months ended September 30, 2013
Net income (loss)	$(2,191)	$1,152	$(394)	$804
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	(527)	1,122	(739)	398
Total comprehensive income (loss)	(2,718)	2,274	(1,133)	1,202
Comprehensive income (loss) attributable to the non-controlling interests	(439)	2,058	(290)	921
Comprehensive income (loss) attributable to Micronet Enertec Technologies, Inc.	$(2,279)	$216	$(843)	$281

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

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(2,191)	$1,152
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,102	801
Change in value of marketable securities	458	(292)
Change in fair value of derivatives, net	296	247
Change in deferred taxes, net	(105)	(187)
Accrued interest and exchange differences on bank loans	(184)	240
Amortization of discount of long term notes, net	61	1,441
Stock based compensation	19	13
Changes in operating assets and liabilities:		
Increase in trade account receivables	(2,146)	(340)
Decrease (increase) in inventories	(1,615)	1,944
Decrease in accrued severance pay, net	(106)	(882)
Increase in other account receivables	(63)	(450)
Increase (decrease) in trade account payables	3,295	(1,183)
Decrease in other account payables	(791)	(1,422)
Net cash provided by (used in) operating activities	$(1,970)	$1,082
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(153)	(259)
Acquisition of business, net of cash acquired (Appendix A)	(7,105)	-
Acquisition of marketable securities	(106)	(3,113)
Net cash used in investing activities	$(7,364)	$(3,372)

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

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short term bank credit	$3,176	$4,661
Receipt of long term loans from banks	4,520	-
Repayment of long term loans	(2,370)	(4,689)
Repayment of long term note	-	(1,718)
Issuance of shares and warrants	-	8,669
Acquisition of non-controlling interest	(646)	(676)
Exercise of call option over non-controlling interest	(925)	(312)
Dividend paid to non-controlling interest	-	(681)
Net cash provided by financing activities	$3,755	$5,254
NET CASH INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,579)	2,964
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,825	10,611
TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	(382)	164
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$6,864	$13,739

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

Appendix A

Acquisition of business, net of cash acquired:		
Inventory	$	(1,360)
Property and equipment		(47)
Intangible assets		(4,232)
Goodwill		(1,466)
Total	$	(7,105)

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

NOTE 1 – GENERAL

A. Overview

Micronet Enertec Technologies, Inc., a U.S. based Delaware corporation was formed on January 31, 2002 (Collectively, “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 currently hold 62.54% of the outstanding issued share capital and is therefore controlled by us.

Micronet is a publicly traded company on the Tel Aviv Stock Exchange 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 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

On September 7, 2012, we, through our wholly-owned subsidiary and holding company, Enertec Electronics Ltd, an Israeli corporation (“Enertec Electronics”), acquired from three Israeli individuals who collectively were the former controlling shareholders of Micronet (the “Sellers”), 47.5% of the issued and outstanding shares of Micronet (the “Acquisition”) pursuant to a stock purchase agreement (the “Agreement”). As described below, pursuant to partial exercise of certain options granted to us under the Agreement and additional purchases of shares from former officers of Micronet, we currently own approximately 62.5% of the outstanding ordinary shares of Micronet. The Agreement also includes two call options granted to the Company (via Enertec Electronics) and a put option granted to Sellers.

On November 14, 2012 and on May 28, 2013, the Company, via Enertec Electronics, exercised its right pursuant to the initial call option granted under the Agreement and acquired an additional 996,000 ordinary shares of Micronet for total consideration of $558, increasing its ownership at such time to 51% of the issued and outstanding shares of Micronet. On August 18, 2013, the Company purchased an additional 600,000 ordinary shares of Micronet from a former executive of Micronet for consideration of $676 and as a result, increased its holdings at such date to 54.3% of the issued and outstanding shares of Micronet. These holdings were thereafter diluted on November 4, 2013 as a result of the exercise of certain options by Micronet officers. On June 11, 2014, the Company, via Enertec Electronics, exercised its right pursuant to the initial call option granted under the Agreement and acquired 1,200,000 ordinary shares of Micronet for total consideration of $925, increasing its ownership at such time to 58.6% of the issued and outstanding shares of Micronet. On July 6, 2014, the Company, via Enertec Electronics, acquired 736,341 shares of Micronet from Mr. Rafi Katz, Micronet's former Chief Executive Officer for consideration of $642. Following the completion of this last purchase, the Company increased its ownership in Micronet to 62.54% of the issued and outstanding shares of Micronet which reflects its holdings as of the date hereof.

C. Public Offering

During the second quarter of 2013, the Company closed an underwritten public offering of 1,863,000 shares of Common Stock, and warrants to purchase 1,012,500 shares of Common Stock, at an offering price of $5.00 per share and $0.01 per warrant. The warrants have a per share exercise price of $6.25, are exercisable immediately, and expire on April 29, 2018. The gross proceeds to the Company, including the underwriter's exercise of its over-allotment option, were $9,324 before deduction of issuance costs of $1,921 payable by the Company. The shares and warrants began trading on the NASDAQ Capital Market on April 24, 2013 under the symbols "MICT" and "MICTW," respectively. The Company analyzed the accounting treatment of the shares and warrants and classified them as equity according to the appropriate accounting guidance.

D. Micronet Acquisition of Beijer US Vehicle Operations

On June 2, 2014, the Company through Micronet, its 62.54% subsidiary, 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 out of which $209 was paid within 90 days following the closing subject to certain inventory adjustments and review. The Vehicle Business results of operations were included in our consolidated reports commencing on the closing date.

The Transaction was financed through, among others, 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 variably rate 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 the tangible assets and intangible assets acquired based on their estimated fair values. 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, an amount of $2,500 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

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The contribution of the Vehicle Business results to our consolidated income was $670 for the four months ended September 30, 2014. The transaction costs amounted to $369 and were charged mainly to general and administrative expenses.

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 2013. 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, 2013. The unaudited pro forma financial information is as follows:

	Nine Months Ended September 30,	
	2014	2013
Total revenues	$27,957	$ 32,260
Net income (loss)	$(1,937)	$ (993)
Basic earnings (losses) per share	$(0.33)	$ (0.17)
Diluted earnings (losses) per share	$(0.33)	$ (0.17)

NOTE 2 - BASIS OF PRESENTATION AND CONSOLIDATION

Basis of Presentation

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the 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 September 30, 2014 and the results of operations and cash flows for the periods presented. The results of operations for the nine months ended September 30, 2014 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, 2013. 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, 2013, and updated, as necessary, in this Quarterly Report on Form 10-Q.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America 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.

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 ceases. Intercompany transactions and balances are eliminated upon consolidation.

Recent Accounting Pronouncements

New accounting standards that are applicable to the period

On March 5, 2013, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity ("ASU 2013-05"). Under ASU 2013-05 when a parent sells an investment in a foreign entity and ceases to have a controlling interest in that foreign entity or a foreign subsidiary disposes of substantially all of its assets; or, control of a foreign entity is obtained in which it held an equity interest before the acquisition date, the cumulative translation adjustment should be released into net income. The adoption of ASU 2013-05 does not have a material impact on the companies consolidated financial statements.

In July, 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry Forward, a Similar Tax Loss, or a Tax Credit Carry Forward Exists ("ASU 2013-11"). ASU 2013-11 eliminates diversity in practice regarding the presentation of an unrecognized tax benefit when a net operating loss carry forward or a tax credit carry forward exists. The adoption of ASU 2013-11 does not have a material impact on the Company's consolidated financial statements.

New accounting standards issued and still not applicable for the period

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this standard change the requirements for reporting discontinued operations in Subtopic 205-20. The amendments in this update will be effective prospectively for annual periods beginning on or after December 15, 2014, and interim periods within those years. The Company does not expect material impacts on the consolidated financial statements upon adoption.

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede the most current revenue recognition guidance, including industry-specific guidance. The underlying principle of the guidance is that an entity should recognize revenue upon the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. The Company is currently evaluating the impact of the amended guidance on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15 "Presentation of Financial Statements - Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". The new standard provides guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company’s ability to continue as a going concern within one year from the date the financial statements are issued. ASU 2014-15 applies prospectively to annual periods ending after December 15, 2016, and to annual and interim periods thereafter. Early application is permitted. The Company does not expect material impacts on the 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.

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 September 30, 2014 and December 31, 2013, are summarized below:

	Fair value measurements using input type September 30, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 6,864	$ -	$ -	$ 6,864
Marketable securities	6,617	-	-	6,617
Derivative liabilities - phantom option	-	(74)	-	(74)
Foreign currency derivatives, net	-	(87)	-	(87)
	$ 13,481	$ (161)	$ -	$ 13,320

	Fair value measurements using input type December 31, 2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 12,825	$ -	$ -	$ 12,825
Marketable securities	6,969	-	-	6,969
Derivative asset - call option	-	460	-	460
Foreign currency derivatives, net	-	55	-	55

	$	19,794	$	515	$	-	$	