MICRONET ENERTEC TECHNOLOGIES, INC.
Form 10-K
April 13, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

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

For the fiscal year ended December 31, 2017

OR

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

For the transition period from ________________ to ________________

Commission file number 000-35850

**MICRONET ENERTEC TECHNOLOGIES, INC.**
(Exact name of registrant as specified in its charter)

Delaware 27-0016420

| | |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 28 West Grand Avenue, Suite 3, Montvale, | NJ 07645 |
| (Address of principal executive offices) | (Zip Code) |

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value $0.001 | Nasdaq Capital Market |
| Warrants (expiring April 23, 2018) | Nasdaq Capital Market |

Securities registered under Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| (Do not check if a smaller reporting company) | Emerging Growth Company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the common stock, $0.001 par value, or Common Stock, of the registrant held by non-affiliates, as of June 30, 2017 was approximately $4,649,280 based on a per share price of $1.08, the price at which the Common Stock was last sold as of June 30, 2017.

As of April 13, 2018, there were 9,144,465 shares of the issuer's Common Stock outstanding.

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*Unless the context provides otherwise, all references in this Annual Report on Form 10-K for the year ended December 31, 2017, or this Annual Report, to "Micronet Enertec," "we," "us," "our," the "Company," the "Registrant" or similar terms, refer to Micronet Enertec Technologies, Inc., together with our wholly-owned subsidiaries and Micronet (as defined below). Unless otherwise noted, all references to "dollars" or "$" are to United States dollars and all references to "NIS" are to New Israeli Shekels. Our website address is included several times in this Annual Report as a textual reference only and the information in any such website is not incorporated by reference into this Annual Report.*

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

The statements contained in this Annual Report on Form 10-K that are not historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as "believes," "intends," "plans" "expects," "may," "will," "should," or "anticipates" or the negative thereof variations thereon or comparable terminology, and similar expressions are intended to identify forward-looking statements. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements, or industry results, expressed or implied by such forward-looking statements. Such forward-looking statements appear in Item 1 – "Business" and Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as elsewhere in this Annual Report and include, among other statements, 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;

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;

Plans for new Micronet products and services;

The proposed sale of our Aerospace and Defense division;

Our financing needs; and

The sufficiency of our capital resources.

The factors discussed herein, including those risks described in Item 1A. “Risk Factors,” and expressed from time to time in our filings with the Securities and Exchange Commission could cause actual results and developments to be materially different from those expressed in or implied by such statements. The forward-looking statements are made only as of the date of this filing, and except as required by law we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

# PART I

## Item 1. Business.

We were formed as a Delaware corporation on January 31, 2002. On March 14, 2013, we changed our corporate name from Lapis Technologies, Inc. to Micronet Enertec Technologies, Inc. The Company's shares have been traded on the Nasdaq Capital Market, or Nasdaq, since April 29, 2013.

We primarily develop rugged mobile devices for the growing commercial Mobile Resource Management, or MRM, market. In addition, through one of our subsidiaries, we also provide high tech solutions for severe environments and the battlefield, including missile defense technologies for the Aerospace & Defense market. Our MRM division develops, manufactures and provides mobile computing platforms for the mobile logistics management market in the U.S., Europe and Israel. American-manufactured systems are designed for outdoor and challenging work environments in trucking, distribution, logistics, public safety and construction. We also design, develop, manufacture and supply customized military computer-based systems, simulators, automatic test equipment and electronic instruments, addressing a multi-billion-dollar defense industry. Solutions and systems are integrated into critical systems such as command and control, missile fire control, maintenance of military aircraft and missiles for the Israeli Air Force, Israeli Navy and by foreign defense entities.

We operate primarily through two Israel-based companies, Enertec Systems 2001 Ltd., or Enertec, our wholly-owned subsidiary, and Micronet Ltd., or 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 publicly-traded on the Tel Aviv Stock Exchange, or TASE, and operates in the growing 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  Beijer Electronics Inc., or Beijer, a U.S.-based vehicle business and operations located in Utah, and as a result added to its business U.S.-based facilities which include manufacturing and technical support infrastructure, sales and marketing capabilities as well as expanded its U.S. customer base and presence with local fleets and local MRM service providers. 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.

Micronet designs, develops, manufactures and sells rugged mobile computing devices that provide fleet operators and field workforces with mobile computing solutions in challenging work environments. Micronet's vehicle cabin installed and portable tablets are designed to increase workforce productivity, enhance corporate efficiency and customer service by offering computing power and communication capabilities. Micronet products provide fleet operators with visibility into vehicle location, fuel usage, speed and mileage and allow for the installation of software applications and communication integration. This enables the users to manage the drivers in various aspects such as: driver identification, reporting hours worked customer/organization working procedures and protocols, route management and navigation based on tasks and time schedule. End users may also receive real time messages for various services such as pickup and delivery, repair and maintenance, status reports, alerts, notices relating to the start and ending of work, digital forms, issuing and printing of invoices and payments. In addition, using its recently launched SmartHub (formerly known as Treq5), Micronet provides third party telematics service providers a platform to offer services such as "Hours of Service," or HOS. Micronet is also commencing an evaluation of integration with other telematics service providers, or TSPs. Through its SmartHub product, Micronet provides its consumers with services such as driver recognition, identifying and preventing driver fatigue, recognizing driver behavior, preventive maintenance, fuel efficiency and an advance driver assistance system.

Micronet's customers consist primarily of Application Service Providers, or ASPs, and solution providers specializing in the MRM market. These companies sell Micronet's products as part of their MRM systems and solutions. Currently, Micronet does not sell directly to end users. Micronet customers are generally MRM solution and service providers, ASP providers in the transportation market, including long haul, local fleets' student transportation (yellow busses) and fleet and field management systems for constructions and heavy equipment. Micronet products are used by customers worldwide. The United States currently constitutes its largest market, representing approximately 78% and 74% of revenue for the years ended December 31, 2017 and 2016, respectively. For the year ended December 31, 2017 and 2016, Micronet's three largest customers represented approximately 30%, 20% and 12% of Micronet's revenues and 23%, 20% and 10% of the Company's total revenues, respectively.

During 2017, no other customer accounted for more than 10% of Micronet's revenue.

Enertec operates in the Aerospace & Defense 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.

On December 31, 2017, we, Enertec and our wholly owned subsidiary, Enertec Management Ltd., entered into a Share Purchase Agreement, or the Share Purchase Agreement, with Coolisys Technologies Inc., or Coolisys, a subsidiary of DPW Holdings, Inc., or DPW, pursuant to which we agreed to sell the entire share capital of Enertec to Coolisys. As consideration for the sale of Enertec' entire share capital, Coolisys has agreed to pay at the closing of the transaction a purchase price of $5.25 million, of which $525,000 will be held in escrow for up to 14 months after the closing to satisfy certain potential indemnification claims, as well as assume up to $4 million of Enertec debt which consideration may be subject to certain adjustments set forth in the Share Purchase Agreement. Upon the signing of the Share Purchase Agreement, Coolisys agreed to deposit a termination fee of $300,000 into escrow to secure its obligations for closing. The parties' obligations to consummate the closing are subject to the satisfaction of customary conditions precedent set forth in the Share Purchase Agreement on or before the later of (i) 60 days after the signing of the Share Purchase Agreement or (ii) 15 days after we deliver to Coolisys the audited balance sheet and the related audited consolidated cash flows for the year ended December 31, 2017 for Enertec, unless extended automatically by 30 days in accordance with the Share Purchase Agreement. We or Coolisys may terminate the Share Purchase Agreement if such conditions precedent were not completed within the aforementioned period. The Share Purchase Agreement contains customary representations and warranties by the parties.

In conjunction with, and as a condition to, the closing, we, Enertec, Coolisys, DPW and Mr. David Lucatz, our Chief Executive Officer, agreed to execute a consulting agreement, or the Consulting Agreement, whereby we, via Mr. Lucatz, will provide Enertec with certain consulting and transitional services over a 3 year period as necessary and requested by Coolisys (but in no event to exceed 20% of Mr. Lucatz's time). Coolisys (via Enertec Systems) will pay us an annual consulting fee of $150,000 as well as issue us 150,000 restricted shares of DPW Class A common stock, or the DPW Equity, for such services, to be vested and released from restriction in three equal installments, with the initial installment vesting the day after the closing and the remaining installments vesting on each of the first 2 anniversaries of the closing. In the event of a change of control of the Company, or if Mr. Lucatz shall no longer be employed by us, the rights and obligations under the Consulting Agreement shall be assigned to Mr. Lucatz along with the DPW Equity.

To date, no closing for the sale of Enertec has taken place and we continue to operate Enertec in the normal course pending the closing of the Share Purchase Agreement.

Approximately 71% and 81% of Enertec's revenues for the years ended December 31, 2017 and 2016, respectively, were from independent business units or groups within Israeli Aerospace Industries Ltd., or IAI, the leading Israeli defense system integrator, and approximately 12% and 6%, respectively, were from Biosense Webster Ltd., a multi-national medical device company. We believe that these leading Israeli systems integrators (which consist of various and distinct business units or groups, each of which is a different potential customer) and the multi-national medical device company, diversify our business, markets and revenue streams. The system integrators that are our primary customers market their solutions throughout the world and across the full spectrum of military applications (land, sea and air). Command and control systems represented approximately 52% and 52% of Enertec's revenues for the years ended December 31, 2017 and 2016, respectively. Management believes that the demand for our products, systems and solutions is not affected significantly by fluctuations in any particular geographic market outside the State of Israel because our products, systems and solutions can be tailored to fit the needs of these different disciplines and are not limited to any specific geographic region.

Our overall strategy focuses on continued internal growth through diligent efforts in our traditional growing markets with new technologies and innovative systems and products in the MRM market, as well as the development of new potential segments and markets. To enhance our growth, we also look for appropriate acquisitions to complement and expand our offerings, as well as support our goals and increase our competitive strengths. Currently, we concentrate the majority of our resources, including our marketing and sales efforts, in the United States and, Israeli and European markets.

**Subsidiaries**

We have two primary operating subsidiaries. We have a controlling interest in Micronet. We are also the sole owner of Enertec. Both Enertec and Micronet are held via our wholly-owned holding company Enertec Electronics Ltd., or Enertec Electronics, which operate the following businesses:

Micronet, an Israel-based manufacturer and developer of rugged computers, tablets and computer based systems in which we hold a controlling interest. We currently own 50.07% of Micronet's outstanding common shares and 49.99% on a fully diluted basis.

Enertec, which 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. In March 2011, Enertec became a wholly-owned subsidiary of Enertec Management Ltd., a private Israeli company, wholly owned by Enertec Electronics.

**Micronet**

Micronet currently operates via its Israeli and U.S. facilities, the first located in Azur, Israel, near Tel Aviv, and the latter located in Salt Lake City, Utah, from which Micronet Inc., operates. Micronet operates in the MRM market as a global developer, manufacturer and provider of mobile computing platforms, designed for integration into fleet management and mobile workforce management solutions. Micronet designs, develops, manufactures and sells rugged mobile computing devices (tablets) that provide fleet operators and field workforces with computing solutions in challenging work environments. Micronet's connected tablets collect data from the vehicle's environment, upload the data to the costumers cloud and are designed to increase workforce productivity, enhance corporate efficiency and customer service by offering computing power and communication capabilities. The Micronet products provide fleet operators among other things, with visibility, through in-cab audio and video, into vehicle location, fuel usage, speed and mileage and allow the installation of software applications and communication integration enabling the users to manage the drivers in various aspects such as: driver identification, hours working report, customer/organization working procedures and protocols, rout management, electronic logging and navigation based on tasks and time schedule. End users may also receive real time messages for various services such as pickup and delivery, repair and maintenance, status reports, alerts, notices relating to start and ending of work, digital forms, issuing and printing of invoices and payments.

Micronet conducts its sales and support activities mainly through its U.S.-based facilities. Micronet's customers are leading international MRM solution and service providers. Micronet maintains an in-house research and development staff and operates an ISO 9001-2008 certified manufacturing facility. During the past years, with the exception of certain components purchased from subcontractors, Micronet has been manufacturing its products and solutions using its own facilities, capabilities and resources, which enable it to control and manage the manufacturing process. Micronet has begun utilizing overseas manufacturers for its new product offers in combination with its internal manufacturing resources. In addition, and dependent on volume and cost considerations, the company is evaluating outsourcing its Israeli manufacturing activity to a third party trusted an professional manufacturer. Micronet combines more than 30 years of experience in the industry with strong technical capabilities to provide a broad range of products and solutions that have met the rigorous standards of our customers.

Micronet's ruggedized mobile computing devices are designed and manufactured to fit the special requirements of the MRM market, enabling customers to operate in challenging work environments, such as extreme temperatures, repeated vibrations or dirty and wet or dusty conditions. Micronet's products, in conjunction with available third-party mobile applications solutions, provide fleet operators with real-time visibility into vehicle location, fuel usage, speed and mileage, as well as other insights into their mobile workface, reducing operating and capital costs while increasing revenue. Micronet's products are used in and/or targeted to a wide range of MRM industry sectors, including:

haulage and distribution, which includes short- and long- haul trucking and distribution servicing of urban retail and wholesale needs, such as delivery of packages, parts and similar items;

- public transport, which refers mainly to buses, para-transit, taxis and limousine services;

- construction, which refers to vehicle fleets that are involved in the construction industry such as cement trucks and heavy equipment;

- service industries, which include insurance companies, rental car companies and other companies operating large mobile service force of technicians, installers and similar personnel;

- municipalities, which include waste management and field workers such as public works; and

- public safety services, which includes fire departments, ambulances, police and forestry.

Micronet’s products are fully programmable and provide customers with the operational flexibility to customize such products for their ongoing needs via a comprehensive development tool kit package that enables them to develop independently and support their own industry-specific applications and solutions.

In view of the competitive environment in which Micronet operates, Micronet is also considering adopting a business model which may include hardware as a service (Haas), which will encourage its customers to purchase products based on an installment payment method, offering the product as a service.

Micronet’s strategy is to continue to leverage its market position in the U.S. and global markets, to become a market leader for MRM products and services.

**Recent developments**

Micronet believes that awareness and demand for MRM solutions is significantly increasing, as customers seek to optimize workforce productivity and customer satisfaction.

Micronet currently offers its customers optional third party software services based on Android platform devices, which enable customer management and control (configuration and updates) of the products, including updates for the operational system, distance diagnostics of the product and similar services. These services are based on Micronet’s business cooperation with third party software vendors, which are integrated into the Micronet offered solutions and include guardian system design (GSD) which is a cloud based system. Such solutions offer customers and fleets the ability to manage, control and operate their equipment from a distance, perform malfunction diagnostics and improve their efficiency and provide a cost saving solution for the duration of the life of the installed products.

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Micronet is also developing its own software which will enable the customers to receive reports related to specific data directly from the vehicle computers.

In 2018, Micronet intends to launch new business and technological services which will include an MRM application store service aimed for the MRM market, and which will include applications specifically designed for fleet management and workforce management applications. Micronet plans to partner with software applications providers and vendors in the market in order to create integrated solutions on its open-source Android operating systems and to offer a multi-layer solution that includes hardware, operating system and dedicated software that enable customers to integrate it into their service. Micronet intends to expand its customer base, approach new marketing and distribution channels, and pursue a business model which also combines a segment of recurring revenue stream built on licensing and software services.

During 2018, Micronet also intends to begin developing and providing advanced software services based on its new generation devices, with such plan dependent on Micronet entering into a variety of cooperation agreements with third parties application and software vendors.

We believe that these new products will further improve the performance and respond to additional specific MRM requirements, allowing the customers to better achieve the desired results and performance.

Micronet's key initiatives for future revenue growth include the following:

Expanding sales activities in the North American, European, and Latin American markets which will include establishing strong relationships with new customers and partners.

Addressing the local fleet vertical of the MRM market with tablets that are specifically designed to support sales to local fleets through multiple value added resellers by offering advanced features at competitive prices. To our knowledge, the local fleet market is considered to be among the leading largest and fastest growing segments of the MRM market.

Supporting the two operating systems, Windows and Android, to satisfy a wider customer base, enabling independent application programming and integration with various mission critical automotive system and enterprise-level software solutions.

Upgrading and enhancing current products and engaging in new product development based on input from clients and partners.

Partnering with major truck manufacturers to develop a built-in, telematics platform.

Developments in the communication market in recent years have enabled Micronet to integrate its products into new standard technologies, which have reduced communication costs and extended availability, thereby increasing the demand for Micronet's products and solutions. Micronet has made significant investments in its facilities, infrastructures and manufacturing capabilities and has made product enhancements and strengthened functionality.

On February 23, 2017, Micronet filed an immediate report with the TASE announcing that it had closed on a public offering of its ordinary shares and sold an aggregate of 6,100,000 shares of its ordinary shares for aggregate gross proceeds of 9,844,020 million NIS. As a result of the public offering, the Company's ownership interest in Micronet was diluted from 62.9% to 49.31%. In order to maintain a controlling interest of Micronet, on February 27, 2017, the Company purchased an additional 140,000 shares of Micronet in a separate transaction with a shareholder of Micronet. In addition, on February 28, 2017, Mr. David Lucatz, our President and Chief Executive Officer, executed an irrevocable proxy assigning his voting power over 45,000 shares of Micronet for our benefit. As a result, our voting interest of Micronet was increased to 50.07% of the issued and outstanding shares of Micronet.

**Market opportunity**

We believe that Micronet is well positioned to pursue a substantial market opportunity. The MRM market, in which we operate through Micronet, is growing and is expected to continue its growth in the coming years. As indicated in market research reports, in the United States, which historically has been Micronet's largest market, there are currently approximately 10 million units in service with MRM systems, and this number was projected to grow to approximately 12 million by the end of 2017. In 2016, the global penetration rate of MRM systems was approximately 13% and the global penetration rate was forecasted to grow to approximately 15% by the end of 2017. In the United States, market penetration was projected to grow from 27% in 2016 to almost 32% by the end of 2017. The U.S. Department of Transportation's Federal Motor Carrier Safety Administration, or the FMCSA, announced the adoption of the final rules and implementation schedule of its Electronic Logging Device mandate, or ELD mandate. The ELD mandate enables professional truck drivers and commercial motor carriers to track HOS compliance easily and efficiently. By 2019, truck drivers and carriers subject to the ELD mandate rules are required to use certified, registered Electronic Logging Devices (ELDs) that comply with the requirements of the ELD mandate. The ELD mandate requires interstate commercial truck and bus companies to use ELDs in their vehicles to record their compliance with the safety rules that govern the number of hours a driver can work. Full enforcement of the regulations commenced in 2017. With full implementation of the rules, we estimate the demand for our products will increase accordingly.

The ELD mandate is intended to help create a safer work environment for drivers, and make it easier, faster to accurately track, manage, and share records of duty status, or RODS, data. For carriers using automatic onboard recording devices, or AOBRDs, before the rule compliance date of December 18, 2017, the rule will replace AOBRDs with ELDs over a four-year implementation period. An ELD, among other things, synchronizes with a vehicle engine to automatically record driving time, for easier, more accurate HOS recording.

According to market estimations known to us, the number of electronic devices similar to those manufactured and marketed by Micronet which (i) are specifically intended for trucks use only and (ii) were installed following implementation of the first stage of the ELD mandate, amounted to 700,000 devices at the end of 2017. This reflects only 41% of the total estimated potential for that period which was approximately 1,700,000 devices.

**Products and Services**

Micronet currently offers various mobile and fix mounted computing tablets to the market, running on both Android and Microsoft operating systems. Micronet currently generates revenues primarily through the sale of its hardware products to service providers who sell those to end users.

Micronet continuously upgrades, enhances and improves its products and/or services. In 2016, Micronet launched the screenless SmartHub (formerly known as “TREQr5”), based on the Android operation system, which marks the entry into the car “black box” computer market and which Micronet believes may provide it with certain competitive advantages over the alternative offerings in the market in view of the fact that such products and services are based on the open platform that allows customers flexible integration with other software and services.

Also, during 2016, Micronet commenced an integration process with a certain a TSP according to which Micronet intends to provide third party telematics services such as HOS and commence evaluation of integrations with other TSPs, which will allow Micronet to provide its consumers with services such as driver recognition, identifying and preventing driver fatigue, recognizing driver behavior, preventive maintenance, fuel efficiency and an advance driver assistance system.

At the beginning of 2018, Micronet launched its new device under the SmarTab brand, which is a rugged tablet suitable for use under extreme environment conditions. This launch marks Micronet’s entry into the rugged tablet market, which is designed to provide customers a solution fit for the functional purpose of a mobile rugged product designed specifically for the vehicle environment and for continuous work outside the vehicle. This product will enable users to use various applications such as receipt of customers signatures on merchandise delivered, performance of activities outside of the vehicle by the technician using designated software, together with the use of the device for fleet management purposes.

**Strategy**

Micronet's strategy focuses on three major vertical markets: (1) traditional long haul, (2) local fleets and (3) heavy equipment. In each vertical market, we implement the delivery of a comprehensive product offering that satisfies the particular needs of that market, and target potentially larger scale transactions that we expect could result in higher revenue as well as increased gross margin and overall profitability. Micronet continuously analyzes the needs of the markets in which it operates in order to best serve its customers' needs. Micronet's strategy is driven by, and focused on, both continued internal growth of its business through gaining a larger market share and the development of new potential markets, new technologies and innovative systems and products as well as through acquisitions.

Key elements of Micronet's strategy include:

Continuing to invest efforts in its technology and product development, through collaborations with its partners, customers and potential customers;

Focusing on offering innovative reliable solutions at a competitive price which will target the  replacement of in house solutions of the service providers;

Expanding the sales channels through telecom operators or carriers;

Penetrating and developing the truck OEM market;

Partnering with and/or acquiring complementary technology to broaden and deepen its offerings and customer base; and

Integrating with third party TSPs in order to provide comprehensive solutions, which include hardware and advanced telematics services.

Micronet believes that one of its core competitive strengths is the breadth of its expertise in mobile data technologies, particularly in MRM technologies for the management of vehicle fleets and mobile workforces.

Micronet intends to enhance its existing products and develop new products by continuing to make investments in research and development. Micronet further intends to continue its strategy of internally developing products in order to enter new market segments.

**Sales and Marketing**

Micronet's customers consist primarily of TSPs specializing in the fleet and MRM markets. Currently, Micronet does not sell to end users. Its customers are generally leading service providers of commercial solutions that integrate a wide range of positioning technologies and computing fleet communications in the MRM market.

Micronet products are used by customers in over worldwide. The United States currently constitutes Micronet's largest market, representing approximately 78% of Micronet's revenue for the year ended December 31, 2017 and 74% for the year ended December 31, 2016. In any given year, a single customer may account for a significant portion of Micronet's revenues. For the year ended December 31, 2017, our 5 largest customers represented approximately individually 30%, 20%, 12%, 7% and 6% of Micronet's revenues, respectively. Our sales team consisted of 7 dedicated sales managers including back office team as of December 31, 2017.

**Research and Development**

Micronet believes that one of its core competitive strengths is the breadth of its expertise in mobile data technologies, particularly in MRM technologies for the management of vehicle fleets and mobile workforces. Micronet has developed this expertise over a period of 30 years. It has an experienced engineering and product development team. In order to keep up with the rapid technology evolution and the changing needs of the markets in which it operates, Micronet continues to focus on its innovation and the development of new products and technologies, by continuing to make the necessary investments in research and development.

Micronet upgrades and enhances its existing products on an on-going basis, including based on input from its clients and partners and from other sources. Enhancements include the addition of capabilities, improvement of product functionality and performance, and adding features to the existing hardware in order to offer customers a variety of solutions, while continuing to decrease costs to enhance its profit margins and create a competitive market pricing position.

In addition, Micronet seeks to design and manage product life cycles through a controlled and structured process. It involves customers and industry experts from its target markets in the definition and refinement of its product development. Product development emphasis is placed on meeting industry standards, ease of integration, cost reduction, design-for manufacturability, versatility and innovation, and quality and reliability.

During the fiscal years ended December 31, 2017 and 2016, Micronet spent NIS 7 million (approximately $1.9 million) and NIS 7.1 million (approximately $1.8 million), respectively, on research and development activities. Micronet uses its own resources to finances its research and development activities and none of the cost of such activities is borne by its customers.

In April 2013, Micronet submitted to the Israeli Innovation Authority or IIA (previously the Office of the Chief Scientist of the Ministry of Economy, or OCS,) a request for financial support within a framework of a research and development program for a new product. In September 2013, a grant to Micronet in a total amount of NIS 5.5 million (approximately $1.5 million) was approved by the IIA. This grant was provided by the IIA for a period of one year (starting April 2013) at a level of 30% from the aforementioned amount. In addition, during 2014 Micronet received further confirmation for a grant from the IIA in the total amount of NIS 5.5 million (approximately $1.5 million). This grant was provided by the IIA for a period of one year (starting April 2014) at a level of 40% from the aforementioned amount. During 2015, Micronet received further confirmation for a grant from the IIA in the total amount of NIS 5.1 million (approximately $1.3 million) at a level of 40% from the aforementioned amount. We are obligated to pay royalties to the IIA amounting to 3%-3.5% of the sales of the products and other related revenues generated from such projects linked to the dollar plus Libor interest rate. To date, Micronet has received an aggregate of NIS 5.6 million (approximately $1.4 million) from the IIA under these three grants.

**Competition**

Micronet operates in a highly competitive industry. Further, during the last few years, competition in the field of mobile computers has significantly increased with the mass entrance and introduction to the market of smart phones, tablets, and laptops, as well as various GPS-based hand-held devices featuring additional functionalities.

Micronet’s current business is focused  on customers that are implementing “tailor made” solutions characterized by highly professional, mission critical and complex technological solutions. These solutions are based on Micronet’s products and must sustain and maintain performance under extreme and challenging field conditions for extended periods of time.

Micronet’s competitors are private companies or companies that do not disclose their sales or other financial information, making it difficult to estimate Micronet’s market share and position in the market. Micronet believes that its most significant competitors include: CalAmp Corp., Morey Corporation (U.S.A.), Mobile Devices Corporation, MOTIA Co. Ltd, Advantech Co., Ltd. Garmin USA, Inc. and Samsung. In addition, some service providers consider the use of their in house development capabilities for the supply of their internal needs for mobile devices.

This intensely competitive industry is characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and changes in customer requirements. In order to maintain its competitive strength, Micronet must continue to develop and introduce on a timely and cost-effective basis, new products and product features which are in line with the technological developments and emerging industry standards and address the increasingly sophisticated needs of its customers.

Micronet’s management believes its strongest competitive advantages are the durability of its products and reputation in the industry. Its competitive strengths include the following:

30 years of field-proven experience, including engineering and manufacturing know-how;

ability to deliver solutions and products to organizations and customers that are leaders in their respective industries;

ability to integrate advanced technological capabilities to develop new solutions and products with its own manufacturing infrastructures and facilities, as well as leverage overseas manufacturing partners, to have greater control over the end-to-end production process and cost-efficiencies;

professional and direct marketing methodology focused on main target customers.

reputation as a leading supplier in relevant markets;

- lasting working relationships with customers;
- an experienced, dedicated and competent management team;
- ELD compliant products; and
- Proprietary technology and know-how that allows rapid configuration and implementation of new solutions to meet the special customer needs.

Micronet currently operates via two facilities, the first located in Azur, Israel, near Tel Aviv, and the second located in Salt Lake City, Utah. These two operating facilities give Micronet additional manufacturing and marketing flexibility to serve the market's needs, reduce its operational risk, improve its U.S. presence and provide management with additional tools to support the business.

**Manufacturing**

Micronet manufactures and assembles its products and solutions using its own facilities in Israel and the United States using its capabilities and resources, which enable it to control and manage the manufacturing and assembly process and ensure timely delivery. The Israeli facilities are primarily used for the manufacturing process while the United States facilities are primarily used for final assembly and shipment activities. The manufacturing process includes development of electronic cards, assembly of microchips on the electronic cards and the assembly thereof within the unit, final testing and quality tests. On a case by case basis, subcontractors specializing in certain development or manufacturing aspects may be retained to achieve improvement, efficiency or reduction of costs of development and/or manufacturing processes. In addition, and dependent on volume and cost considerations, the company is evaluating outsourcing its Israeli manufacturing activity to a third party manufacturer.

With some of Micronet's newer product offerings, the company is utilizing overseas manufacturing in conjunction with its internal assembly test lines in Salt Lake City for final provisioning and shipping.

Following certain enhancements in its manufacturing and production capabilities, Micronet has excess manufacturing capacity and has the ability to meet current or foreseeable manufacturing needs without making any significant investments. Implemented enhancements include:

upgraded production and assembly line and purchased new machinery with significant higher component implementation scale;

increased factory facilities and upgraded various infrastructures;

entered into agreements with subcontractors in the field that operate additional manufacturing facilities, and have significant procurement and manufacturing capabilities and resources that are available to Micronet;

Certified subcontractors to perform manufacturing process to ensure flexible manufacturing infrastructures and deployment that can be used for disaster recovery scenarios or rapid increase in production needs.

If additional manufacturing resources are needed to meet increased demand for Micronet's products, manufacturing capacity can be enhanced by outsourcing manufacturing processes, recruiting and training additional employees, adding shifts to the labor cycle and purchasing additional manufacturing equipment and machinery or other required infrastructures.

**Intellectual Property**

Proprietary rights are important to Micronet's business because its ability to remain competitive in the market is dependent to a significant degree on its proprietary solutions and products and the technology on which they are based. To protect its proprietary rights, Micronet primarily relies on a combination of copyright and trade secret laws, internal know-how, and agreements with third parties, such as license agreements. In addition, Micronet employs internal controls such as the use of confidentiality and non-disclosure agreements. Micronet believes its proprietary technology incorporates processes, know-how, methods, algorithms, hardware and software that are the result of more than 20 years of experience and in-house expertise and thus are not easily copied.

There is a significant amount of litigation with respect to intellectual property in the industry in which Micronet operates. Micronet has not, to date, been the subject of any claims or proceedings with regards to infringement of third party's proprietary rights and it believes that its products, solutions and services do not violate or infringe any third party's intellectual property rights. In light of the strong competition in the industry and the innovative solutions and technologies incorporated by Micronet into its recent products, Micronet has been exploring the use of patent applications and is in the process of filing certain patent applications related to its products in the United States, solutions and proprietary technologies. These patents, to the extent granted, are expected to assist Micronet to maintain its technological and competitive position in the market.

Micronet's management, together with its research and development team, monitor closely and continuously all technological developments in the market. Micronet considers and evaluates on an ad hoc basis whether technology and proprietary assets should be acquired through independent in-house development or through the purchase of patents or other technological licenses. Where the purchase of third party proprietary technology, solution or products is required and can be of advantage to its business, Micronet would purchase a license and pay appropriate royalties or license fees. Micronet currently has all third-party licenses or is in the process of acquiring licenses that it believes are necessary to maintain and develop its business.

**Government Regulation**

Micronet's business is subject to certain international standards such as U.S. Federal Communications Commission, or FCC, Part 15B, FCC ID, CE and Restriction of Hazardous Substances, or RoHS, which define compatibility of interface and telecommunications standards to those implemented in Europe by the European Commission and in the United States by the FCC. Its solutions and products also comply with the E-Mark European standard, which is the standard that defines the compatibility of interface and telecommunications to all appliances installed in and around an automobile.

**Employees**

As of December 31, 2017, Micronet had approximately 76 full-time employees. Of these employees, 35 are employed in manufacturing positions, and the remainder are employed in sales, research and development, management and administrative positions. Our employees are not represented by any collective bargaining agreement, and we have never experienced a work stoppage. We believe we have good and sustainable relations with our employees.

Israeli labor laws and regulations apply to all employees based in Israel. The laws principally address matters such as paid vacation, paid sick days, length of the workday, payment for overtime and severance payments upon the retirement or death of an employee or termination of employment under specified circumstances. The severance payments may be funded, in whole or in part, through a managers' insurance fund or a pension fund. The payments to the managers' insurance fund or pension fund toward severance amount to 8.3% of wages. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute of Israel. Since January 1, 1995, these amounts also include payments for health insurance.

We, including all of our subsidiaries, employed an aggregate of 162 employees on December 31, 2017.

**Enertec**

Enertec is one of the largest Israeli private manufacturers of specialized electronic systems for the military market and was founded in the 1980. Enertec operates in the defense and aerospace markets. It designs, develops and manufactures computer based instruments and aerospace electronic solutions designed to operate in severe environments and battlefield conditions, primarily for military use in air, space land and sea. Enertec's products are grouped into three material product lines: computer-based command and control systems, automatic test equipment, and power supplies. The command and control systems are integrated in mission critical air defense missiles and other weapon systems and are designed to operate in severe environments. The automatic test equipment line includes a variety of test systems and simulators that test and assure combat readiness of various aircraft and missiles. The power supplies are uniquely designed to support our systems and are also supporting our customers as stand-alone solutions. Enertec's solutions and systems are tailored to customers' specifications and are, or are integrated into, critical weapon systems carries out large-scale, complex projects from design through customer support taking full responsibility for all stages of development, production and integration.

Enertec has successfully supplied electronic systems for a diverse range of military projects in Israel and abroad.

Areas in which Enertec develops and manufactures electronic systems on a turnkey basis:

Power supplies and converters for combat aircraft, missiles, and mobile ground units

Test and simulation systems for a wide array of weapon systems

Ruggedized command & control mobile equipment for various weapon systems

Mobile command & control centers for and missile defense systems

Power supplies and switching systems

Drivers for laser systems.

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Enertec is also active as a subcontractor in the areas of electronic, mechanical, and software development, and produces electronic systems.

Applications of Enertec products and capabilities span a broad range:

- Missiles of various types
- Unmanned aerial vehicles
- Electronic systems for tanks, combat aircraft, missile boats and submarines
- Command & control systems installed in mobile centers
- Armaments testers for combat aircraft Systems installed on satellites.

Enertec holds high security clearance in Israel for the most sensitive defense programs. Our solutions and systems are marketed mainly by the leading Israeli defense industries (system integrators) and are used by the Israeli defense forces specifically by the Israeli Air Force and Israeli Navy as well as by other foreign defense entities served by our customers. Enertec is registered as a Single Site quality management system in conformance with ISO 9001: 2008 and AS9100-C, the international standards for quality assurance and quality design. These standards are important to customers that order custom-made products and are made up of a combination of quality system requirements.

Enertec generates revenue from long term projects. Thereafter, we anticipate moving to the production phase and generating revenue through direct sales from the mass production of its developed product.

On December 31, 2017, we, Enertec and our wholly owned subsidiary, Enertec Management Ltd., entered into a Share Purchase Agreement with Coolisys, a subsidiary of DPW, pursuant to which we agreed to sell the entire share capital of Enertec to Coolisys. As consideration for the sale of Enertec' entire share capital, Coolisys has agreed to pay at the closing of the transaction a purchase price of $5.25 million, of which $525,000 will be held in escrow for up to 14 months after the closing to satisfy certain potential indemnification claims, as well as assume up to $4 million of Enertec debt which consideration certain adjustments set forth in the Share Purchase Agreement. Upon the signing of the Share Purchase Agreement, Coolisys agreed to deposit a termination fee of $300,000 into escrow to secure its obligations for closing. No closing for the sale of Enertec has taken place and we continue to operate Enertec in the normal course pending the closing of the Share Purchase Agreement. Enertec met the definition of a component. Accordingly, its assets and liabilities were classified as held for sale and the results of operations in the statement of operations and prior periods results have been reclassified as discontinued operation accordingly.

**New products**

In addition to our traditional systems and products, we have been developing systems, solutions and products in the following areas: (1) operationally resilient computers integrated into various weapon systems, (2) missile launch platforms, (3) command and control systems, (4) missiles communications systems, (5) generic testers for military equipment, (6) power distributer units for robotic application (air, sea and land)and (7) mobile command & control centers, a rugged shelter which operates as a full system which is deployed in rugged and difficult terrains for the control and monitoring of advanced weapon systems. These systems and products utilize advanced know-how developed by Enertec’s trained and highly-skilled technical personnel. During 2017, we focused our development resources and solution capabilities in the missile defense area and accordingly, received orders in this area of business. Management believes that Enertec’s know-how, capabilities and expertise will enable us to further increase our product offerings to existing and other customers’ strategic projects in space land, air and sea. During 2017, Enertec also focused on expanding the market of fully automated testing systems for medical calibration devices relating to the treatment of heart rhythm disorders.

**Market conditions**

The defense market, in which we operate through Enertec, includes the design and manufacturing of electronic systems developed to enhance large-scale military land, airborne and seaborne tactical platforms. These systems include operational resilient military computer based systems, simulators, automatic test equipment and electronic instruments that are used or integrated in critical weapon systems such as command and control systems, missile fire control systems, support military aircraft systems and other defense systems and equipment such as night visions systems, unmanned aerial vehicle, or UAV, systems, laser products, airborne photography measures, processing and display of data systems and communications systems. In the Israeli defense market, Israeli providers supply a significant portion of their products to the Israeli defense forces specifically in view of the continuing defense needs of the State of Israel. However, the Israeli defense industry is also a well-respected exporter of its products to armies and defense forces worldwide and such international markets provide for stable demand for military and defense products.

We expect a continuing demand in the missile defense niche based on the increasing and growing use by defense forces around the world in various missiles and other electronic systems in different sectors such as self-defense missile systems, guided unmanned weapon systems, attack (air, sea and land) missiles and other missile systems. In view of the continuing defense trends to rely on missiles and missile defense systems as a significant factor in the defense strategy of armed forces worldwide, the global missile and missile defense system market is expected to continue to grow, according to the Global Missiles and Missile Defense Systems Market 2015-2025 report, published by Strategic Defense Intelligence on February 5, 2016. Cumulatively, the markets for missiles and missile defense systems are likely to account for the highest proportion of spending in the global missile and missile defense systems market.

**Marketing strategies**

Our sales and marketing efforts are focused on developing new business opportunities as well as generating follow-on sales from our existing customers. Our sales efforts in view of our products, solutions and services are generated primarily through our internal sales team, although we also retain third-party global selling agents from time to time. Various members of our senior management also serve as effective sales representatives who contribute to the generation of military and corporate business due to their long-standing customer relationships with leading industry integrators and knowledge of our customers' mission-critical technologies, requirements and needed solutions. We continue to explore various Israeli and international business partnerships to increase our sales and market penetration. We actively participate in trade shows involving technology and electronics defense operations. Additionally, our business development efforts include our website, preparation and distribution of marketing materials, advertising directed toward the defense and homeland security market and product demonstrations.

Our strategy is to anticipate the needs of our clients, the relevant demand and needs in our market niches, to make investments in research and development (including developing know-how, capable manpower) and initiate the development of those products and solutions that we believe will meet the market and customers' needs best. By doing so, we shorten our time to market, improve our market position from a technology perspective, and gain an edge on our competition. Furthermore, we have been able to identify those current and potential clients that we believe are likely to place large orders, and we focus our attention on developing our relationship with them. When successful, we are in an excellent position to offer both basic and advanced, sophisticated products enabling us to expand our relationship with these clients and resulting in additional revenue streams. In these cases, deepening our relationship with our clients creates the opportunity to incorporate our solutions into our customers' core components and critical systems.

By continuously diversifying into new and more complex products and fully scaled systems, we have been able to set Enertec apart from its competition. We also continue to increase our suite of custom products based on our proprietary designs and technologies. These products are core components of several long-term military programs spearheaded by our customers, which historically have expected purchase lifecycles over periods of up to 10 years. In addition, we have been recognized as a certified supplier for the U.S. Department of Defense and for the North Atlantic Treaty Organization alliance countries. We are currently in the midst of our marketing and sales efforts to promote our product offerings with major U.S. defense organizations.

Enertec's strategy is driven and focused on continued internal growth through diligent efforts in its traditional growing markets with new technologies and innovative systems and products as well as the development of new potential segments and markets. Concurrent with its efforts to grow organically and in line with its strategy, it may seek acquisitions that will complement and expand Enertec's product offerings and markets and increase its competitiveness.

To help achieve its internal growth, Enertec has expanded its production capacity and facilities and continually improved and upgraded its workforce. The main current segments of the markets in which Enertec focuses its resources are the aerospace and defense and medical instruments fields. Territory-wise most of the activities exist in the Israeli domestic defense market which exports its systems worldwide.

**Customers**

Enertec's customers are primarily leading Israeli defense system integrators. The system integrators' customers are the Israeli Ministry of Defense and other ministries of defense worldwide. The balance of our sales is made directly to the Israeli defense and armed forces (mainly the IDF) that place direct orders.

As of December 31, 2017, approximately 75% of Enertec's annual revenues were from independent business units or groups within Rafael and the IAI, the two leading Israeli defense system integrators, as compared to 86% at December 31, 2016. These leading Israeli system integrators (which consist of various and distinct business units or groups, each of which is a different potential customer) create diversity to our business, markets and revenue streams In addition, during 2017, Enertec also continued to expand its offering of fully automated testing system for the calibration of medical devices, with such sales accounting for 12% of Enertec's revenues for the year ended December 31, 2017 as compared to 3% for the year ended December 31, 2016.

The system integrators that are our primary customers market their solutions throughout the world and across the full spectrum of military applications (land, sea and air). Management believes that the demand for our products, systems and solutions is not affected significantly by fluctuations in any particular geographic market outside the State of Israel because our products, systems and solutions can be tailored to fit the needs of these different disciplines and are not limited to any specific geographic region.

**Backlog**

As of December 31, 2017, Enertec had a backlog of orders for our systems, products and services in the amount of approximately $8.4 million, which are orders that can be exercised from time to time but are an obligation of ours for the entire amount). As of December 31, 2016, Enertec had a backlog of orders for our systems, products and services in the amount of approximately $7.9 million (including $1.5 million in framework orders).

**Competition**

The defense market in which we operate through Enertec is fractured, intensely competitive and our main competition comes from customers' internal development and manufacturing divisions and a number of relatively small private Israeli companies that specialize in electronic systems. This intensely competitive market is characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and changes in customer requirements. In order to maintain our competitive strength, we must continue to develop and introduce on a timely and cost-effective basis, new products and product features which are in line with the technological developments and emerging industry standards.

**Suppliers**

Our suppliers are diversified, and we are not dependent upon a limited number of suppliers for essential raw materials, components, services or other items. In order for us to maintain the standards required by our customers, we require that our suppliers be well-established, with facilities and manufacturing capabilities that comply with our relevant standards. Although we are not dependent on any one supplier, disruptions in normal business arrangements due to the loss of one or a few suppliers could adversely affect us. Disruptions also may be experienced if our existing suppliers are no longer able to meet our requirements or if there is an industry shortage of electronic or mechanical components. Not only could these disruptions limit our production capacity, but also, if there is a shortage of components, such disruption could result in higher costs. The raw materials we use are either electronic components purchased from suppliers, or mechanical components primarily manufactured by local subcontractors.

**Employees**

As of December 31, 2017, we had approximately 82 full-time employees at Enertec and 4 full-time employees at Enertec Electronics. Of these employees, 70 are employed in engineering and manufacturing positions, and the remainder are employed in sales, management and administrative positions. Our employees are not represented by any collective bargaining agreement, and we have never experienced a work stoppage. We believe we have good relations with our employees.

Israeli labor laws and regulations apply to all employees based in Israel. The laws principally cover matters such as paid vacation, paid sick days, length of the workday, payment for overtime and severance payments upon the retirement or death of an employee or termination of employment under specified circumstances. The severance payments may be funded, in whole or in part, through a managers' insurance fund or a pension fund. The payments to the managers' insurance fund or pension fund toward severance amount to 8.3% of wages. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute of Israel. Since January 1, 1995, these amounts also include payments for health insurance.

**Research and development expenditures**

Research and development costs totaled approximately $672,000 and $518,000 for the years ended December 31, 2017 and 2016, respectively, which equates to approximately 10% and 5% of Enertec's revenues during these years, respectively. These expenditures have adequately satisfied our research and development requirements. We are using our engineering resources to research and design new technologies, products and solutions that we expect to implement into the new projects and large military programs of our core customers.

**Intellectual property**

Although we are not dependent on patents or trademark protection with regard to Enertec's business and do not expect to be at any time in the future, proprietary rights and unique know-how are important to Enertec's business because its ability to remain competitive in the market is dependent to a significant degree on its proprietary solutions and the technologies on which they are based. Enertec develops systems, products and solutions for its clients on a "work for hire" basis. Although, Enertec does not claim any rights in the products or services that it provides, its proprietary modules and subsystems play an integral and significant part in the development of the solutions, systems, products and services that it ultimately delivers. To protect its proprietary rights in these modules and subsystems, Enertec primarily relies on a combination of copyright and trade secret laws, internal knowledge and know-how, technological innovations and agreements with third parties, such as license agreements. In addition, Enertec employs internal controls such as the use of confidentiality and non-disclosure agreements. Enertec believes its proprietary technology incorporates processes, know-how, methods, algorithms, hardware and software that are the result of more than ten years of experience resulting in in-house expertise and thus are not easily copied. Further, most of the production process is performed in-house with the exception of certain components that are manufactured by subcontractors. This limited outsourcing process allows Enertec to maintain the majority of its proprietary information and know-how within the Company and lowers its exposure to the risk of its technology solutions being copied or used by any third parties.

Enertec's management, together with its research and development team, closely and continuously monitors the technological developments in the market. Enertec considers and evaluates on an ad hoc basis whether technology and proprietary assets should be acquired through independent in-house development or through the purchase of patent or other technology licenses.

**Regulation**

Enertec's electronic products must comply with the Underwriters Laboratories, or UL, standards, of the United States and the Conformité Européenne, or CE, standards of Europe to be eligible for sale in the respective countries subject to these standards. Each system must be tested, qualified and labeled under the relevant standards. This is a complicated and expensive process and once completed, the approved product may not be altered for sale.

## Item 1A. Risk Factors.

Investing in our securities is highly speculative and involves a high degree of risk. You should carefully consider the following factors and other information in this Annual Report and our other SEC filings before making a decision to invest in our securities. Additional risks and uncertainties that we are unaware of may become important factors that affect us. If any of the following events occur, our business, financial conditions and operating results may be materially and adversely affected. In that event, the trading price of our common stock and warrants may decline, and you could lose all or part of your investment.

### Risks Related to Our Business and Industry

**Potential political, economic and military instability in Israel could adversely affect our operations.**

One of our principal offices and operating facilities is located in Israel. Accordingly, with respect to our Israeli facility, political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been an increase in hostilities between Israel and the Palestinian Arabs, which has adversely affected the peace process and has negatively influenced Israel's relationship with its Arab citizens and several Arab countries, including the Israel-Gaza conflict. Such ongoing hostilities may hinder Israel's international trade relations and may limit the geographic markets where we can sell our products and solutions. Hostilities involving or threatening Israel, or the interruption or curtailment of trade between Israel and its present trading partners, could materially and adversely affect our operations.

In addition, Israel-based companies and companies doing business with Israel have been the subject of an economic boycott by members of the Arab League and certain other predominantly Muslim countries since Israel's establishment. Although Israel has entered into various agreements with certain Arab countries and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, we cannot predict whether or in what manner these problems will be resolved. Wars and acts of terrorism have resulted in significant damage to the Israeli economy, including reducing the level of foreign and local investment.

Furthermore, certain of our officers and employees may be obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called up for active military duty at any time. All Israeli male citizens who have served in the army are subject to an obligation to perform reserve duty until they are between 40 and 49 years old, depending upon the nature of their military service.

**If we are unable to develop new products and maintain a qualified workforce we may not be able to meet the needs of our customers in the future.**

Virtually all of the products that we produce and sell are highly engineered and require sophisticated manufacturing and system-integration techniques and capabilities. The markets and industry in which we operate are characterized by rapidly changing technologies. The products, systems and solutions needs of our customers change and evolve regularly. Accordingly, our future performance depends on our ability to develop and manufacture competitive products and solutions, and bring those products to market quickly at cost-effective prices. In addition, because of the highly specialized nature of our business, we must be able to hire and retain the skilled and qualified personnel necessary to perform the services required by our customers. If we are unable to develop new products that meet customers' changing needs or successfully attract and retain qualified personnel, our future revenues and earnings may be adversely affected.

**We are dependent on the services of our executive officers, whose potential conflicts of interest may not permit us to effectively execute our business strategy**.

We currently depend on the continued services and performance of our executive officers, particularly David Lucatz, our Chairman and also Micronet's Chairman and President. Mr. Lucatz also serves as the President, Chairman and Chief Executive Officer of D.L. Capital Ltd., or DLC, the primary asset of which is its ownership of shares of our common stock. We have a management and consulting services agreement with DLC. Pursuant to a separate management and consulting services agreement, Mr. Lucatz has agreed to devote 22% of his time to Micronet matters for the term of that agreement. Our business and results of operations may suffer if Mr. Lucatz, other executive officers or directors, are unable to devote the attention necessary to our overall business strategy and operations.

**Developing new technologies entails significant risks and uncertainties that may cause us to incur significant costs and could have a material adverse effect on our operating results, financial condition, and/or cash flows.**

A significant portion of our business relates to developing sophisticated products and applications. New technologies may be untested or unproven. In addition, we may incur significant liabilities that are unique to our products and services. While we maintain insurance for some business risks, it is not practicable to obtain coverage to protect against all operational risks and liabilities. In addition, we may seek limitation of potential liability related to the sale and use of our products and systems. We may elect to provide products or services even in instances where we are unable to obtain such indemnification or qualification. Accordingly, we may be forced to bear substantial costs resulting from risks and uncertainties of our products and products under development, which could have a material adverse effect on our operating results, financial condition and/or cash flows.

**If we are unable to effectively protect our proprietary technology, our business and competitive position may be harmed.**

Our success and ability to compete are dependent on our proprietary technology. The steps each of our operations, Enertec and Micronet, has taken to protect its proprietary rights may not be adequate and we may not be able to prevent others from using our proprietary technology. The methodologies and proprietary technology that constitute the basis of each of Enertec's and Micronet's solutions and products are not protected by patents. Existing trade secret, copyright and trademark laws and non-disclosure agreements to which each of Enertec and Micronet is a party offer only limited protection. Therefore, others, including Enertec's or Micronet's competitors, may develop and market similar solutions and products, copy or reverse engineer elements of Enertec's systems or Micronet's production lines, or engage in the unauthorized use of Enertec's or Micronet's intellectual property. Any misappropriation of Enertec's or Micronet's proprietary technology or the development of competitive technology may have a significant adverse effect on Enertec's or Micronet's ability to compete and may harm our business and financial position.

**We may incur substantial costs as a result of litigation or other proceedings relating to intellectual property rights**.

Third parties may challenge the validity of Enertec's or Micronet's intellectual property rights or bring claims regarding Enertec's or Micronet's infringement of a third party's property rights. This may result in costly litigation or other time-consuming and expensive judicial or administrative proceedings, which could deprive us of valuable rights, cause us to incur substantial expenses and cause a diversion for technical and management personnel. An adverse determination may subject us to significant liabilities or require us to seek licenses that may not be available from third parties on commercially favorable terms, if at all. Further, if such claims are proven valid, through litigation or otherwise, we may be required to pay substantial financial damages or be required to discontinue or significantly delay the development, marketing, sale or licensing of the affected products and intellectual property rights.

**Our earnings and margins may be negatively impacted if we are unable to perform under our contracts.**

When agreeing to contractual terms, our management makes assumptions and projections about future conditions or events. These projections assess:

- the productivity and availability of labor;
- the complexity of the work to be performed;
- the cost and availability of materials;
- the impact of delayed performance; and
- The timing of product deliveries.

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If there is a significant change in one or more of these circumstances or estimates, or if we face unexpected contract costs, the profitability of one or more of these contracts may be adversely affected and could affect, among other things, our earnings and margins, due to the fact that our contracts are often made on a fixed-price basis.

**Our earnings and margins could be negatively affected by deficient subcontractor performance or unavailable raw materials or components.**

We rely on other companies to provide raw materials, major components and subsystems for our products. Subcontractors perform some of the services that we provide to our customers. We depend on these subcontractors and vendors to meet our contractual obligations in full compliance with customer requirements. Occasionally, we rely on only one or two sources of supply that, if disrupted, could have an adverse effect on our ability to meet our commitments to customers. Our ability to perform our obligations as a prime contractor may be adversely affected if one or more of these suppliers is unable to provide the agreed-upon supplies or perform the agreed-upon services in a timely and cost-effective manner. Further, deficiencies in the performance of our subcontractors and vendors could result in a customer terminating a contract for default. A termination for default could expose us to liability and adversely affect our financial performance and our ability to win new contracts.

**We depend on major customers for a significant portion of our revenues and our future revenues and earnings could be negatively impacted by the loss or reduction of the demand for our products or services by such customers.**

A significant portion of our annual revenues in the past two years were derived from a few leading customers that are large scale strategic Israeli defense groups. In the MRM industry a significant portion of our MRM annual revenues derived from a few leading customers. As of December 31, 2017, the MRM division had five customers that combined account for approximately 75% of its revenues.

Israeli defense spending historically has been driven by perceived threats to the country’s national security. Although Israel has been under a sustained elevated threat level in recent years, we cannot provide any assurance that its defense budget will continue to grow at the pace it has over the past decade. A decrease in Israel’s defense spending or changes in spending allocation could result in one or more of our programs being reduced, delayed or terminated. Reductions in our existing programs could adversely affect our future revenues and earnings. In the MRM market, most of our major customers do not have any obligation to purchase additional products or services from us. Therefore, we cannot provide any assurance that any of our leading customers will continue to purchase solutions, products or services at levels comparable to previous years. A substantial loss or reduction in Micronet’s existing programs could adversely affect our future revenues and earnings.

**We operate in a highly competitive and fragmented market and may not be able to maintain our competitive position in the future.**

A number of larger competitors have recently entered the MRM market in which Micronet operates. These large companies have far greater development and capital resources than Micronet. Further, there are competitors of Micronet that offer solutions, products and services similar to those offered by Micronet. If they continue, these trends could undermine Micronet's competitive strength and position and adversely affect our earnings and financial condition.

**Micronet may cease to be eligible for, or receive reduced, tax benefits under Israeli law, which could negatively impact our profits in the future**.

Micronet and Enertec currently receive certain tax benefits under the Israeli Law for Encouragement of Capital Investments of 1959, as a result of the designation of its production facility as an "Approved Enterprise." To maintain their eligibility for these tax benefits, Micronet and Enertec must continue to meet several conditions including, among others, generating more than 25% of its gross revenues outside the State of Israel and continuing to qualify as an "Industrial Company" under Israeli tax law. An Industrial Company, according to the applicable Israeli law (Law for the Encouragement of Industry (Taxes), 1969), is a company that resides in Israel (either incorporated in Israel or managed and controlled from Israel) that, during the relevant tax year, derives at least 90% of its income from an Industrial Factory. An Industrial Factory means a factory that is owned by an Industrial Company and where its manufacturing operations constitute a vast majority of the factory's total operations/business. The tax benefits of qualifying as an Industrial Company include a reduction of the corporate tax from 24% for "Regular Entities" and 16% or 7.5% for "Preferred Enterprises" (depending on the location of industry) in 2017. In addition, in recent years the Israeli government has reduced the benefits available under this program and has indicated that it may further reduce or eliminate benefits in the future. There is no assurance that Micronet and Enertec will continue to qualify for these tax benefits or that such tax benefits will continue to be available at their current level, or at all. The termination or reduction of these tax benefits would increase the amount of tax payable by Micronet and Enertec and, accordingly, reduce our net profit after tax and negatively impact our profits.

**We have entered into a Share Purchase Agreement with Coolisys for the sale of Enertec and our aerospace and defense division. We may not be successful in closing the sale of Enertec.**

On December 31, 2017, we, Enertec and our wholly owned subsidiary, Enertec Management Ltd., entered into a Share Purchase Agreement with Coolisys, a subsidiary of DPW, pursuant to which we agreed to sell the entire share capital of Enertec to Coolisys. The closing of the Share Purchase Agreement is subject to various closing conditions. To date, we have not consummated the sale of Enertec to Coolisys. There is no guarantee that we will be able to successfully consummate the contemplated sale of Enertec in a timely manner, if at all.

**If we successfully consummate the sale of Enertec to Coolisys, our future revenues will be dependent on successfully entering into arrangements to be paid management fees from Micronet, or any other subsidiary we may acquire, in the future.**

Currently, we derive most of our annual revenue through our ownership of our wholly owned subsidiary, Enertec. In addition, we also hold a majority ownership stake in Micronet, although Micronet does not pay us any dividends or management fees. If we are successful in consummating the sale of Enertec to Coolisys, we will have no revenues and therefore, in order to generate revenues, we will need to enter into an arrangement with Micronet, or any other subsidiary we may acquire, relating to the payment for certain management functions we perform. There is no guarantee that we will be able to successfully negotiate, and enter, into such a management arrangement and our failure to do so may have an adverse effect on our future revenues and overall financial condition.

**Because almost all of our officers and directors are located in non-U.S. jurisdictions, you may have no effective recourse against our management for misconduct.**

Currently, a majority of our directors and officers are or will be nationals and/or residents of countries other than the United States, and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against such officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any U.S. state. Additionally, it may be difficult to enforce civil liabilities under U.S. securities law in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to hear the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law.

**Our financial results may be negatively affected by foreign exchange rate fluctuations.**

Our revenues are mainly denominated in U.S. currency and our costs are mainly denominated in Israeli currency. Where possible, we match sales and purchases in these and other currencies to achieve a natural hedge. Currently, neither Enertec nor Micronet has a policy with respect to the use of derivative instruments for hedging purposes, except that both Enertec and Micronet will consider engaging in such hedging activities on a case by case basis. To the extent we are unable to fully match our sales and purchases in different currencies, our business will be exposed to fluctuations in foreign exchange rates.

**If our beneficial ownership of Micronet's ordinary shares declines, we may not be able to treat Micronet as our subsidiary, which may adversely affect our financial condition and results of operations**.

We currently hold 50.07% of Micronet's outstanding ordinary shares through our subsidiary Enertec Electronics. If we are unable to consider Micronet as a consolidated subsidiary, our financial condition and results of operations may be adversely affected and may cause interest in or the market price of our securities to decline.

**We may become a target for cybersecurity disruptions which may impact our business operations.**

We may be subject to attempted cybersecurity disruptions from a variety of threat actors. If systems for protecting against cybersecurity disruptions prove to be insufficient, the Company, customers, employees or third parties could be adversely affected. Such cybersecurity disruptions could cause physical harm to people or the environment; damage or destroy assets; compromise business systems; result in proprietary information being altered, lost or stolen; result in employee, customer or third party information being compromised; or otherwise disrupt business operations. We could incur significant costs to remedy the effects of such a cybersecurity disruption, as well as in connection with resulting regulatory actions and litigation, and such disruption may harm our relationships with our customers and impact our business reputation.

**Risks Related to Ownership of our Securities**

**Your ability to influence corporate decisions may be limited because ownership of our common stock is concentrated.**

As of March 31, 2018, Mr. Lucatz, our Chairman, Chief Executive Officer and President beneficially owns 2,597,200 shares, or approximately 28.4% (and 25.6% on a fully diluted basis) of our outstanding common stock. As a result, Mr. Lucatz, may effectively control matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control of the Company, and this may have a material adverse effect on the trading price of our common stock.

**Provisions in our corporate charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.**

Provisions in our certificate of incorporation, as amended, and amended and restated bylaws may discourage, delay or prevent a merger, acquisition or other change in control of us that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your common stock. These provisions could also limit the price that investors might be willing to pay in the future for our securities, thereby depressing the market price of our securities. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the General Corporation Law of the State of Delaware, or the DGCL, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. We have not opted out of the restrictions under Section 203.

**Our stockholders may experience significant dilution as a result of any additional financing using our equity securities and/or debt securities.**

To the extent that we raise additional funds by issuing equity securities, such as through our Standby Equity Distribution Agreement as described below, or convertible debt securities, our stockholders may experience significant dilution. Sales of additional equity and/or convertible debt securities at prices below certain levels will trigger anti-dilution provisions with respect to certain securities we have previously sold. If additional funds are raised through a credit facility, or the issuance of debt securities or preferred stock, lenders under the credit facility or holders of these debt securities or preferred stock would likely have rights that are senior to the rights of holders of our common stock, and any credit facility or additional securities could contain covenants that would restrict our operations.

**If the price of our common stock is volatile, purchasers of our common stock could incur substantial losses.**

The price of our common stock has been, and may continue to be volatile. The market price of our common stock may be influenced by many factors, including but not limited to the following:

announcements of developments related to our business;

quarterly fluctuations in our actual or anticipated operating results;

announcements of technological innovations;

the completion of the proposed sale of Enertec;

new products or product enhancements introduced by us or by our competitors;

developments in patents and other intellectual property rights and litigation;

developments in our relationships with our third party manufacturers and/or strategic partners;

developments in our relationships with our customers and/or suppliers;

regulatory or legal developments in the United States, Israel and other countries;

general conditions in the global economy; and

the other factors described in this “Risk Factors” section.

For these reasons and others, you should consider an investment in our common stock as risky and invest only if you can withstand a significant loss and wide fluctuations in the value of your investment.

**A sale of a substantial number of shares of our common stock or securities convertible into or exercisable for our common stock may cause the price of our common stock to decline and may impair our ability to raise capital in the future.**

Our common stock is traded on Nasdaq and, despite certain increases of trading volume from time to time, there have been periods when it could be considered “thinly-traded,” meaning that the number of persons interested in purchasing our common stock at or near bid prices at any given time may have been relatively small or non-existent. Finance transactions resulting in a large amount of newly-issued securities may be readily tradable, or other events that cause current stockholders to sell shares, could place downward pressure on the trading price of our common stock. In addition, the lack of a robust resale market may require a stockholder who desires to sell a large number of shares of common stock to sell those shares in increments over time to mitigate any adverse impact of the sales on the market price of our stock. If our stockholders sell, or the market perceives that our stockholders intend to sell for various reasons, including the ending of restriction on resale, substantial amounts of our common stock in the public market, including shares issued upon the exercise of outstanding options or warrants, the market price of our common stock could fall. Sales of a substantial number of shares of our common stock may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate. Moreover, we may become involved in securities class action litigation that could divert management’s attention and harm our business.

**If securities or industry analysts do not publish research or reports or publish unfavorable research about our business, the price of our common stock could decline.**

We do not currently have any significant research coverage by securities and industry analysts and we may never obtain such research coverage. If securities or industry analysts do not commence or maintain coverage of us, the trading price for our common stock might be negatively affected. In the event we obtain securities or industry analyst coverage, if one or more of the analysts who covers us or will cover us downgrades our securities, the price of our common stock would likely decline. If one or more of these analysts ceases to cover us or fails to publish regular reports on us, interest in the purchase of our common stock could decrease, which could cause the price of our common stock and trading volume to decline.

**We did not declare or pay cash dividends in either 2017 or 2016 and do not expect to pay dividends for the foreseeable future.**

We have no dividends policy and will consider distributing dividends on a year by year basis. The payment of dividends, if any, in the future, rests within the discretion of our board of directors and will depend, among other things, upon our earnings, our capital requirements and our financial condition, as well as other relevant factors. There are no restrictions in our certificate of incorporation, as amended, or amended and restated bylaws that restrict us from declaring dividends. There are no assurances that we will pay dividends in the future.

**If we fail to continue to meet all applicable Nasdaq requirements, Nasdaq may delist our common stock, which could have an adverse impact on the liquidity and market price of our common stock.**

Our common stock is currently listed on Nasdaq, which has qualitative and quantitative listing criteria. If we are unable to meet any of the Nasdaq listing requirements in the future, including, for example, if the closing bid price for our common stock falls below $1.00 per share for 30 consecutive trading days, Nasdaq could determine to delist our common stock, which could adversely affect the market liquidity of our common stock and the market price of our common stock could decrease. In that regard, on September 1, 2017, we received a written notice from Nasdaq indicating that we were not in compliance with Nasdaq Listing Rule 5550(a)(2), as the closing bid price for our common stocks was below $1.00 per share for the preceding 30 consecutive business days. On January 8, 2018, we received a written notice from Nasdaq that for at least 10 consecutive business days, from December 20, 2017 to January 5, 2018, the closing bid price for our common stock had been at $1.00 or greater and, as a result, we had regained compliance with Nasdaq Listing Rule 5550(a)(2). If our closing bid price again falls below $1.00 per share for 30 consecutive trading days, we may be subject to delisting and such delisting could also adversely affect our ability to obtain financing for the continuation of our operations and could result in the loss of confidence by investors, customers and employees.

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties.**

Enertec’s properties consist of leased combined office and manufacturing facilities used for sales, support, research and development, manufacturing, and our headquarters (management and administrative personnel). Enertec’s offices and facilities currently consist of approximately 25,000 square feet located in Karmiel, in the north of Israel leased at approximately $257,000 per year for the remaining lease duration. The lease term expires in June 2021, subject to two five-year extension options and an early termination provision after five years, which we hold. We believe that Enertec’s present facilities are suitable for its existing and projected operations for the near future. In addition, upon the contemplated sale of Enertec, the aforementioned lease will be assumed by Coolisys.

Micronet currently maintains two facilities in adjacent buildings in Azur, Israel. Both of these facilities are leased, one under a long-term lease, or the Long Term Lease, under which Micronet has purchased “like ownership” rights from the Israeli Land Administration. The facility subject to the Long Term Lease is used as Micronet’s headquarters and the other facility is an industrial building which houses its factory. Micronet’s executive offices occupy approximately 9,150 square feet and house the corporate functions, sales support, and marketing, finance, engineering and operating groups. The Long Term Lease expires in April 2028, subject to our option to extend the term by another 49 years. We do not pay rent with respect to this facility because we have purchased the lease rights. The factory facility occupies approximately 9,400 square feet at approximately $6,000 per month. The facility is used for the manufacturing and logistic support of the business, including warehouse. During 2017, Micronet paid $89,000 in connection with the Long Term Lease.  Micronet believes that its present facilities are suitable for its existing and projected operations for the near future. Our U.S. subsidiary, Micronet Inc., maintains leased offices in Salt Lake City, Utah. Micronet Inc.'s lease was extended on month to month basis in May 2016 until either party provides written three month notice to the other and the rent cost is approximately $252,000 per year. The factory facility in Salt Lake City occupies approximately 14,809 square feet and is used for the assembly and logistic support of the business, including warehouse.

**Item 3. Legal Proceedings.**

On March 30, 2017, Micronet announced in an immediate report filed with the Israeli Securities Authority that it received notice from a client, or the Client, relating to tests performed by the Client which, to the Client's belief, revealed a defect in the materials included in the battery integrated into a certain product of Micronet purchased by the Client. In its immediate report, Micronet clarified that the product at issue is an older product that has since been replaced by newer models and is part of the portfolio of products purchased from Beijer in June 2014. The Client filed a complaint, or the Complaint, in this matter with the United States National Highway Traffic Safety Administration, or the Regulator. The basis of the Complaint relates to similar problems in the specific product that were previously addressed with the Client pursuant to Micronet's warranty and in the ordinary course of business. In light of these events, Micronet performed independent tests to examine the Client's complaint (including addressing the issue with the battery manufacturer) and simultaneously addressed the issue with the Regulator, including filing its response to the Complaint. Micronet does not believe the product in question contains a significant defect, as alleged by the Client and has stated its position in its response to the Regulator. To date, Micronet has not yet received the Regulator's response to the Complaint. Currently, Micronet and the Client have continued to maintain a business relationship notwithstanding the Complaint and are working together to find a technical and commercial solution while discussing a resolution to the dispute related to the Complaint. As of the date hereof, the parties each possess certain claims against the other (Micronet relating to outstanding payments for an existing invoice and the Client with respect to the alleged damage caused to it relating to the matters identified above). In addition, Micronet has informed its insurance carrier of the potential claim. At this stage, we are unable to estimate whether this matter, taking into consideration the fact that Micronet reported that the product discussed is an older generation product that was replaced by marketing of other advanced products, will have a material adverse effect on Micronet's prospective sales or on our business.

From time to time we may become subject to litigation incidental to our business. Other than as set above, Enertec and Micronet are not currently parties to any material legal proceedings.

**Item 4. Mine Safety Disclosures.**

Not applicable.

# PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our shares of common stock are listed on Nasdaq under the symbol "MICT." Our warrants are listed on Nasdaq under the symbol "MICTW."

The following table sets forth, for the periods indicated, the range of high and low sale prices of our common stock on Nasdaq through December 31, 2017:

| Quarter | High | Low |
|---|---|---|
| 2017 | | |
| First quarter | $1.41 | $1.17 |
| Second quarter | $1.30 | $0.99 |
| Third quarter | $1.07 | $0.76 |
| Fourth quarter | $1.41 | $0.68 |
| | | |
| 2016 | | |
| First quarter | $2.31 | $1.57 |
| Second quarter | $2.29 | $1.61 |
| Third quarter | $2.19 | $1.60 |
| Fourth quarter | $1.73 | $1.17 |

The following table sets forth, for the periods indicated, the range of high and low sale prices of our warrants on Nasdaq through December 31, 2017:

| Quarter | High | Low |
|---|---|---|
| 2017 | | |
| First quarter | $0.365 | $0.0604 |
| Second quarter | $0.26 | $0.0947 |
| Third quarter | $0.19 | $0.10 |
| Fourth quarter | $0.275 | $0.061 |
| | | |
| 2016 | | |
| First quarter | $0.23 | $0.17 |
| Second quarter | $0.18 | $0.14 |

| | | |
|---|---|---|
| Third quarter | $0.18 | $0.12 |
| Fourth quarter | $0.16 | $0.05 |

On April 10, 2018, the last reported sale price of our common stock on Nasdaq was $1.29 per share.

On April 10, 2018, the last reported sale price of our warrants on Nasdaq was $0.031 per warrant.

**Holders**

As of April 9, 2018, we had 9,144,465 shares of common stock outstanding and such shares were held by 11 stockholders of record. Because some of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

**Dividends**

We did not declare or pay cash dividends in either 2017 or 2016 and currently do not plan to declare dividends on shares of our common stock in the foreseeable future. We have no dividends policy and will consider distributing dividends on a year by year basis. We expect to retain our future earnings, if any, for use in the operation and expansion of our business. Subject to the foregoing, the payment of cash dividends in the future, if any, will be at the discretion of our board of directors and will depend upon such factors as earnings levels, capital requirements, our overall financial condition and any other factors deemed relevant by our board of directors.

**Recent Sales of Unregistered Securities**

None.

**Item 6. Selected Financial Data.**

Not applicable.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Overview**

We provide rugged mobile devices for the growing commercial MRM market and high tech solutions for severe environments and the battlefield, including missile defense technologies for Aerospace& Defense. Our MRM division develops, manufactures and provides mobile computing platforms for the multibillion dollar mobile logistics management market in the U.S., Europe and Israel. American-manufactured systems are designed for outdoor and challenging work environments in trucking, distribution, logistics, public safety and construction. We design, develop, manufacture and supply customized military computer-based systems, simulators, automatic test equipment and electronic instruments, addressing a multi-billion-dollar defense industry. Solutions and systems are integrated into critical systems such as command and control, missile fire control, maintenance of military aircraft and missiles for the Israeli Air Force, Israeli Navy and by foreign defense entities.

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 TASE 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 Beijer, or the Transaction, a U.S.-based vehicle business and operations located in Utah, or the Vehicle Business, 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.

On December 31, 2017, we, Enertec and our wholly owned subsidiary, Enertec Management Ltd., entered into a Share Purchase Agreement with Coolisys, a subsidiary of DPW, pursuant to which we agreed to sell the entire share capital of Enertec to Coolisys. As consideration for the sale of Enertec' entire share capital, Coolisys has agreed to pay at the closing of the transaction a purchase price of $5.25 million, of which $525,000 will be held in escrow for up to 14 months after the closing to satisfy certain potential indemnification claims, as well as assume up to $4 million of Enertec debt which consideration certain adjustments set forth in the Share Purchase Agreement. Upon the signing of the Share Purchase Agreement, Coolisys agreed to deposit a termination fee of $300,000 into escrow to secure its obligations for closing. No closing for the sale of Enertec has taken place and we continue to operate Enertec in the normal course pending the closing of the Share Purchase Agreement.

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. 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 the Israeli domestic market, the U.S. market and the European market.

In December 2015, the U.S. Department of Transportation's FMCSA, announced the publication of the final rule and implementation schedule of its Electronic Logging mandate. The FMCSA mandate requires interstate commercial truck and bus companies to use ELD in their vehicles to record their compliance with the safety rules that govern the number of hours a driver can work. Implementation of rule compliance will begin immediately, and full enforcement of the regulations commenced in 2017. With full implementation of the rules, industry analysts anticipate that the number of ELD-equipped trucks on the road will increase from 1 million today to approximately 2.7 million in 2017.

The FMCSA mandate on ELDs potentially significantly impacts both drivers and trucking companies and offers an opportunity for the industry to increase the use of mobile technology to achieve better efficiencies while at the same time meet the new compliance requirements. In order to log their hours of service, or HOS, the mandate requires all long-haul drivers to use ELDs rather than the old paper forms. Using ELDs will assist drivers to accurately share reports of their HOS electronically in real time. We estimate based on the compliance requirements that since all drivers must be in compliance by 2019, a significant number of large trucking companies will need to purchase ELDs to meet the mandatory requirements of the mandate and hence the demand for ELD compliance devices and/or products will increase.

During 2016, Micronet launched the SmartHub (formerly known as "Treq5"), which is a screenless Android based On Board Computer which enables Micronet to compete in the black box market. In 2017, the SmartHub reached sales of $5.6 million, or approximately 31% of the Micronet's total revenues.

**Non-GAAP Financial Measures**

In addition to providing financial measurements based on generally accepted accounting principles in the United States of America, 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 through the acquisition of Beijer. 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 changes 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** - These expenses are non-cash and are related to amortization of discount of the note purchase agreements with YA II PN, or YA II. Such expenses do not reflect our on-going operations.

**Stock-based compensation** - This is stock-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.

The following table reconciles, for the periods presented, GAAP net loss attributable to Micronet Enertec to non-GAAP net loss 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:

| | **Year ended December 31, (Dollars in Thousands, other than share and per share amounts)** | |
|---|---|---|
| | **2017** | **2016** |
| GAAP net loss from continued operation | $ (5,060) | $ (6,262) |
| Amortization of acquired intangible assets | 504 | 582 |
| Stock-based compensation and shares issued to service providers | 102 | 294 |
| Amortization of note discount | 158 | (24) |
| Income tax-effect of above non-GAAP adjustments | (3) | (6) |
| Total Non-GAAP net loss from continued operation | $ (4,299) | $ (5,416) |
| Non-GAAP net loss per diluted share from continued operation | $ (0.60) | $ (0.91) |
| Shares used in per share calculations | 7,128,655 | 5,966,622 |
| GAAP basic and diluted loss per share from discontinued operation | $ (0.68) | $ (0.21) |
| GAAP basic and diluted loss per share from continued operation | (0.70) | (0.76) |

**Results of Operations**

**Year Ended December 31, 2017 Compared to Year Ended December 31, 2016**

**Revenues**

Revenues for the year ended December 31, 2017 were $18,366,000 as compared to $13,284,000 for the year ended December 31, 2016. These revenues represent an increase of $5,082,000, or 38%, in the Company's revenues for the year 2017. The increase in revenues is primarily due to an increase in Micronet revenues as a result of an increase in customer orders related to Micronet's new SmartHub product line.

Gross profit increased by $1,645,000, or 63%, to $4,272,000 for the year ended December 31, 2017. This is in comparison to gross profit of $2,627,000 for the year ended December 31, 2016. Gross profit as a percentage of sales was 23% for the year ended December 31, 2017 compared to 20% for the year ended December 31, 2016. This increase is mainly due to an increase in the volume of units sold relating to Micronet's new product line.

**Selling and Marketing**

Selling and marketing costs are part of operating expenses. Selling and marketing costs for the year ended December 31, 2017 were $1,883,000, as compared to $1,352,000 for the year ended December 31, 2016. This represents an increase of $531,000, or 39%, for the year 2017. The increase is primarily due to an increase in sales commissions as a result of the increase in revenues and increases in salaries of sales and marketing employees as a result of increased marketing efforts in North America and Europe.

**General and Administrative**

General and administrative costs are part of operating expenses. General and administrative costs for the year ended December 31, 2017 were $4,116,000 as compared to $4,535,000 for the year ended December 31, 2016. This represents a decrease of $419,000, or 9%, for the year ended December 31, 2017. The decrease is mainly due to cost saving measures undertaken by Micronet and the Company, as well as decreases in consultant and professional expenses.

**Research and Development Costs**

Research and development costs are part of operating expenses. Research and development costs, which mainly include wages, materials and sub-contractors, for the year ended December 31, 2017, were $1,964,000 compared to $1,802,000 for the year ended December 31, 2016. This represents an increase of $162,000, or 9%, for the year ended December 31, 2017. The increase is mainly attributed to an increase in payroll costs.

**Net Loss from operations**

Our net loss from operations for the year ended December 31, 2017 was $4,669,000, or 25% as a percentage of sales, compared to an operating loss of $5,988,000, or 45% as a percentage of sales, for the year ended December 31, 2016. The decrease in net loss is mainly a result of the increase in revenues and in gross margins.

**Financial Expenses, net**

Financial expenses net, for the year ended December 31, 2017 were $401,000 compared to $319,000, for the year ended December 31, 2016. This represents an increase of $82,000, or 26%, for the year ended December 31, 2017. The increase in financial expenses in the year ended December 31, 2017 as compared to the year ended December 31, 2016 was primarily due to an increase in exchange rate differentials.

**Net Loss attributed to Micronet Enertec Technologies, Inc. from continued operation**

Our net loss attributable to Micronet Enertec from continued operation was $5,060,000, or 28% as a percentage of sales, in the year ended December 31, 2017, compared to net loss attributable to Micronet Enertec from continued operation of $6,262,000, or 47% as a percentage of sales, in the year ended December 31, 2016. This represents a decrease in net loss of $1,202,000, or 19%, as compared with the year ended December 31, 2016. The change is mainly a result of the increase in revenues and the changes in gross profit and operating expenses as described above.

**Discontinued operation**

As a result of the proposed sale of our Enertec subsidiary to Coolisys, we have classified Enertec's assets and liabilities as held for sale and the results of operations in the statement of operations and prior periods' results have been reclassified as discontinued operation. Enertec's net loss increased from $1,200,000 for the year ended December 31, 2016 to a net loss of $4,900,000 for the year ended December 31, 2017. The increase in net loss is mainly attributed to a 25% decrease in revenues, a less profitable and longer continuation of certain projects as a result of cash flow deficiencies, a delay in delivery and progress of certain projects and a $1,000,000 doubtful debt resulting in an increase of the general and administrative expenses.

**Liquidity and Capital Resources**

The Company finances its operations through current revenues, loans and securities offerings. The loans are divided into bank loans, a loan from Meydan Family Trust No 3, or Meydan, and loans from YA II PN, all as described below.

For the year ended December 31, 2017, our total cash and cash equivalents and restricted cash and marketable securities balance was $2,398,000 (of which no marketable securities), as compared to $4,111,000 (of which marketable securities amounted to $2,978,000) for the year ended December 31, 2016. This reflects a decrease of $1,713,000 in cash and cash equivalents and restricted cash and marketable securities. The decrease in cash and cash equivalents is primarily a result of loan repayments.

For the year ended December 31, 2017, our net cash used in operating activities was $4,073,000, as compared to $4,615,000 for the year ended December 31, 2016. The change in operating activities is primarily a result of increase in accounts receivable and inventories.

For the year ended December 31, 2017, our net cash provided by investing activities was $3,171,000, as compared to $2,605,000 for the year ended December 31, 2016. The change in investing activities is primarily a result of the sale of marketable securities.

For the year ended December 31, 2017, our net cash used in financing activities was $2,387,000, as compared to $481,000 for the year ended December 31, 2016. The change in financing activities is primarily a result of bank loan repayments.

On December 31, 2017, we, Enertec and our wholly owned subsidiary, Enertec Management Ltd., entered into a Share Purchase Agreement with Coolisys, a subsidiary of DPW, pursuant to which we agreed to sell the entire share capital of Enertec to Coolisys. As consideration for the sale of Enertec's entire share capital, Coolisys has agreed to pay at the closing of the transaction a purchase price of $5.25 million, as well as assume up to $4.0 million of Enertec debt which consideration may be subject to certain adjustments set forth in the Share Purchase Agreement. Enertec met the definition of a component. Accordingly, its assets and liabilities were classified as held for sale and the results of operations in the statement of operations and prior periods results have been reclassified as discontinued operation accordingly.

In conjunction with, and as a condition to, the closing of the Share Purchase Agreement, the Company, Enertec, Coolisys, DPW and Mr. David Lucatz, the Company's Chief Executive Officer, agreed to execute a consulting agreement, or the Consulting Agreement, whereby the Company, via Mr. Lucatz, will provide Enertec with certain consulting and transitional services over a 3 year period as necessary and requested by the Coolisys (but in no event to exceed 20% of Mr. Lucatz's time). Coolisys (via Enertec) will pay the Company an annual consulting fee of $150,000 as well as issue the Company 150,000 restricted shares of DPW Class A common stock, or the DPW Equity, for such services, to be vested and released from restriction in three equal installments, with the initial installment vesting the day after the closing and the remaining installments vesting on each of the first 2 anniversaries of the closing. In the event of a change of control in the Company, or if Mr. Lucatz shall no longer be employed by the Company, the rights and obligations under the Consulting Agreement shall be assigned to Mr. Lucatz along with the DPW Equity.

For the year ended December 31, 2017, our net cash used in discontinued operating activities was $1,367,000, as compared to net cash provided by discontinued operating activities $1,228,000 for the year ended December 31, 2016. The change is mainly a result of the increase of net loss and decrease in trade accounts receivable.

For the year ended December 31, 2017, our net cash provided by discontinued investing activities was $43,000, as compared to net cash used in discontinued investing activities of $574,000 for the year ended December 31, 2016. The change is mainly a result of the increase in restricted cash.

For the year ended December 31, 2017, our net cash provided by discontinued financing activities was $1,427,000 as compared to net cash used discontinued financing activities of $723,000 for the year ended December 31, 2016. The change is mainly a result of an increase in a short term bank loan.

On June 30, 2016, the Company and Enertec Electronics entered into a Note Purchase Agreement with YA II, whereby YA II purchased $600,000 of notes from the Company. The outstanding principal balance of the notes bears interest at 7% per annum. On a quarterly basis commencing on October 10, 2016, the Company are required to make payments of $150,000 of principal plus accrued interest. All amounts payable were to be due on July 10, 2017, which was subsequently extended to December 31, 2017. We made the required payments due on December 31, 2017.

On October 28, 2016, the Company and Enertec Electronics entered into an additional Note Purchase Agreement with YA II whereby YA II loaned an additional $500,000 to the Company pursuant to an additional secured promissory note. The outstanding principal balance of the additional note bore interest at 7% per annum. The additional note was to mature on November 20, 2017, which was subsequently extended to March 31, 2018.

On December 22, 2016, the Company and Enertec Electronics entered into a Supplemental Agreement with YA II, whereby YA II agreed to lend us an additional $1,000,000 pursuant to a secured promissory note. The outstanding principal balance of this note bore interest at 7% per annum. The note was to mature on December 20, 2017, which was subsequently extended to September 30, 2018.

On June 8, 2017, the Company and Enertec Electronics entered into the Second Supplemental Agreement with YA II, whereby YA II agreed to lend us $600,000 pursuant to an additional secured promissory note. The outstanding principal balance of the additional note bore interest at 7% per annum. The additional note was to mature on December 31, 2018. The Company has agreed to make payments of $100,000 on September 30, 2018 and $500,000 on December 31, 2018. The note, along with the other notes held by YA II, was secured by a pledge of shares of Micronet owned by Enertec Electronics.

Pursuant to the Second Supplemental Agreement, the Company, Enertec Electronics and YA II agreed to amend the terms of the June 2016 Note, the October 2016 Note and the December 2016 Note. Pursuant to the Second Supplemental Agreement, the June 2016 Note was amended to (i) extend the maturity date to December 31, 2017 and (ii) amend the repayment schedule owed under such note such that $150,000 shall be payable by the Company on each of October 10, 2016, May 1, 2017, September 30, 2017 and December 31, 2017 (provided, however, that we have previously repaid the October 10, 2016 and May 1, 2017 payments). Pursuant to the Second Supplemental Agreement, the October 2016 Note was amended to (i) extend the maturity date to March 31, 2018 and (ii) amend the repayment schedule such that on May 1, 2017 the Company shall make a payment of $150,000 (provided, however, that we have previously repaid the May 1, 2017 payment), on September 30, 2017 the Company shall make a payment of $100,000, on December 31, 2017 the Company shall make a payment of $150,000 and on March 31, 2018 the

Company shall make a payment of $100,000. Pursuant to the Supplemental Agreement, the December 2016 Note was amended to (i) extend the maturity date to September 30, 2018 and (ii) amend the repayment schedule such that on March 31, 2018, the Company shall make a payment of $300,000, on June 30, 2018 the Company shall make a payment of $400,000 and on September 30, 2018 the Company shall make a payment of $300,000.

In addition, the Company agreed to amend the exercise price of warrants to purchase 66,000 shares of our common stock issued to YA II on June 30, 2016, with an original exercise price of $4.30 per share, warrants to purchase 66,000 shares of our common stock issued to YA II on October 28, 2016, with an original exercise price of $3.00 per share, and warrants to purchase 120,000 shares of our common stock issued to YA II on December 22, 2016, with an original exercise price of $3.00 per share, to $2.00 per share. The warrants also provide for demand and piggyback registration rights.

The Company agreed to pay to YA Global II SPV LLC (as designee of YA II) a commitment fee in the amount of $25,000 and a $25,000 extension fee in consideration for amending the terms of the June 2016, October 2016 and December 2016 Notes. In addition, the Company agreed to accelerate a commitment fee of $50,000, payable pursuant to a First Supplemental Agreement dated December 22, 2016, to be paid at the closing of the December 2016 Note.

In connection with the Second Supplemental Agreement and issuance of the additional note, on June 8, 2017, we agreed to grant to YA II a five-year warrant to purchase 90,000 shares of our common stock. The warrant is exercisable at an exercise price equal to $2.00 per share of common stock for cash or on a cashless basis if no registration statement covering the resale of the shares issuable upon exercise of the warrant is available. The warrant also provides for demand and piggyback registration rights.

On June 8, 2017, we entered into another note purchase agreement with YA II whereby YA II agreed to lend us $600,000 pursuant to an additional secured promissory note. The outstanding principal balance of the additional note bore interest at 7% per annum. The additional note was to mature on December 31, 2018 and we were to make payments of $100,000 on September 30, 2018 and $500,000 on December 31, 2018.

On August 22, 2017, the Company and Enertec Electronics executed the Third Supplemental Agreement which supplements the Note Purchase Agreement executed by the parties on October 28, 2016. Pursuant to the Third Supplemental Agreement, we borrowed $1,500,000 from YA II pursuant to the terms of a secured promissory note. The outstanding principal balance of the note bore interest at 7% per annum. The note was to mature on November 22, 2017. On November 19, 2017, the Company and YA II amended the maturity date of the August 2017 Note to February 15, 2018 and provided that the Company may extend such maturity date to January 15, 2019 at its sole discretion.

Upon the occurrence of an Event of Default (as defined in the notes), all amounts payable may be due immediately. In addition, if we receive any cash proceeds in connection with the sale or proposed sale of any of our holdings in any of our subsidiaries (if and to the extent such transaction is consummated) including without limitation, installment payments or break-up fee payments, we are required to pre-pay the outstanding balance of the note as soon as such proceeds are received. The notes are secured by a pledge of shares of Micronet owned by Enertec Electronics.

On March 29, 2018, the Company and Enertec Electronics executed and closed on a securities purchase agreement with YA II, whereby the Company issued and sold to YA II (1) certain Series A Convertible Debentures in the aggregate principal aggregate amount of $3.2 million, or the Series A Debentures, and (2) a Series B Convertible Debenture in the principal aggregate amount of $1.8 million, or the Series B Debenture. The Series A Debentures were issued in exchange for the cancellation and retirement of the above described promissory notes issued by the Company to YA II on October 28, 2016, December 22, 2016, June 8, 2017 and August 22, 2017, or collectively, the Prior Notes, with a total outstanding aggregate principal amount of $3.2 million. The Series B Debenture was issued and sold for aggregate gross cash proceeds of $1.8 million. At the closing of the transactions contemplated by the securities purchase agreement, the Company agreed to pay YA II, or its designee, a commitment fee of $90,000, an extension fee of $50,000 relating to the prior extension of the secured promissory note issued on August 22, 2017, and $126,786.74 representing the accrued and unpaid interest on the Prior Notes.

Pursuant to the terms of the securities purchase agreement, the Company agreed not to create, incur or assume any new indebtedness, liens or enter into a variable rate transaction, subject to certain exceptions, until the repayment of the Series B Debenture.

Pursuant to the terms of the Series A Debentures, YA II may elect to convert the required payments due thereunder into the Company's common stock at a fixed conversion price of $2.00 per share. In addition, the Company may, at its sole discretion, convert a required payment at a conversion price equal to 98.5% of the lowest daily volume weighted average price of the Company's common stock during the ten consecutive trading days immediately preceding a conversion, provided that such price may not be less than $0.50. In addition, pursuant to a Series A Debentures, the Company agreed to pay YA II $63,287 representing the remaining unpaid and accrued interest from one of the Prior Notes within 90 days.

Pursuant to the terms of the Series B Debenture, YA II may elect to convert the required payments due thereunder into the Company's common stock at a fixed conversion price of $4.00 per share. In addition, the Company may, at its sole discretion, convert a required payment at a conversion price equal to 98.5% of the lowest daily volume weighted average price during the ten consecutive trading days immediately preceding a conversion, provided that such price may not be less than $0.50.

Upon a change of control of the Company, YA II may elect to convert the Series A Debentures and Series B Debenture at either the relevant fixed conversion price or the variable conversion price, at its sole discretion. Upon the occurrence of an Event of Default (as defined in the Series A Debentures and the Series B Debenture), all amounts payable may be due immediately and YA II may elect to convert the Series A Debentures and the Series B Debenture at either the relevant fixed conversion price or the variable conversion price, at its sole discretion. The Series A Debentures and Series B Debenture are secured by a pledge of shares of Micronet owned by Enertec Electronics.

In addition, pursuant to the terms of the securities purchase agreement, the Company agreed to issue to YA II a warrant to purchase 500,000 shares of the Company's common stock at a purchase price of $2.00 per share, a warrant to purchase 200,000 shares of the Company's common stock at a purchase price of $3.00 per share and a warrant to purchase 112,500 shares of the Company's common stock at a purchase price of $4.00 per share.

On August 22, 2017, the Company entered into a Standby Equity Distribution Agreement, or the 2017 SEDA, with YA II for the sale of up to $10 million of shares of the Company's common stock, par value $0.001 per share, over a three-year commitment period. Under the terms of the 2017 SEDA, the Company may from time to time, in its discretion, sell newly-issued shares of its common stock to YA II at a discount to market of 1.5%. The Company is not obligated to utilize any of the $10 million available under the 2017 SEDA and there are no minimum commitments or minimum use penalties. The total amount of funds that ultimately can be raised under the 2017 SEDA over the three-year term will depend on the market price for the Company's common stock and the number of shares actually sold. YA II is obligated under the SEDA to purchase shares of the Company's common stock from the Company subject to certain conditions including, but not limited to the Company filing a registration statement with the United States Securities and Exchange Commission, or the SEC, to register the resale by YA II of shares of common stock sold to YA II under the 2017 SEDA and the SEC declaring such registration statement effective. The 2017 SEDA does not impose any restrictions on the Company's operating activities. During the term of the 2017 SEDA, YA II is prohibited from engaging in any short selling or hedging transactions related to the Company's common stock. To date, the Company has not sold any shares under the 2017 SEDA.

In connection with the 2017 SEDA, the Company agreed to pay YA Global II SPV, LLC (as designee of YA II), a commitment fee in the amount of $800,000, or the Commitment Fee, in the aggregate, which was to be paid in eight quarterly installments of $100,000, with the first installment due and payable on the fifth trading day following the execution of the 2017 SEDA. The Commitment Fee may be paid in cash or shares of the Company's common stock. The Company paid YA II $50,000 out of the first installment of the Commitment Fee. On November 19, 2017, we entered into an agreement with YA II whereby the commitment fee repayment terms were amended such that (i) $200,000 of the commitment fee shall be payable as follows: $50,000 shall be due and payable on March 31, 2018, $50,000 shall be due and payable on September 30, 2018, $50,000 shall be due and payable on March 31, 2019, and $50,000 shall be due and payable on September 30, 2019, and (ii) we shall pay the remaining $600,000 as follows: $90,000 shall be paid when the aggregate advance amounts under the SEDA shall total $3,000,000, $30,000 shall be paid when the aggregate advance amounts under the SEDA shall total $4,000,000, $30,000 shall be paid when the aggregate advance amounts under the SEDA shall total $5,000,000, $150,000 shall be paid when the aggregate advance amounts under the SEDA shall total $6,000,000, $50,000 shall be paid when the aggregate advance amounts under the SEDA shall total $7,000,000, $130,000 shall be paid when the aggregate advance amounts under the SEDA shall total $8,000,000, $60,000 shall be paid when the aggregate advance amounts under the SEDA shall total $9,000,000 and $60,000 shall be paid when the aggregate advance amounts under the SEDA shall total $10,000,000.

On November 22, 2017, we entered into a Securities Purchase Agreement with one investor, an affiliate of YA II, for the sale of 555,556 shares of the our common stock at a purchase price per share of $0.90 per share in a registered direct offering for total gross proceeds of $500,000. The shares were offered and sold by us pursuant to our shelf registration statement on Form S-3 (File No. 333-219596). The net proceeds to us from the offering, after deducting fees and expenses, were $495,000.

On February 22, 2018, we entered into a Securities Purchase Agreement with D-Beta One EQ, Ltd., an existing stockholder and an affiliate of YA II, an existing lender, stockholder and warrant-holder of ours and whom we have entered into the 2017 SEDA, for the sale of 456,308 shares of our common stock at a purchase price per share of $1.05 per share in a registered direct offering for total gross proceeds of approximately $479,123. The shares were offered and sold by us pursuant to our shelf registration statement on Form S-3 (File No. 333-219596). The net proceeds to us from the offering, after deducting fees and expenses, were approximately $474,123.

On September 2, 2015, Enertec entered into a Credit Line Agreement with a financing firm, or the Financing Firm, pursuant to which the Financing Firm agreed to grant Enertec a credit line. The maximum aggregate amount of the Credit Line Agreement is $675,000 and up to 85% of open trade receivables invoices. The annual interest rate is Prime plus 1.75%. The Credit Line Agreement will expire on April 30, 2017. On August 31, 2017, the Credit Line Agreement was terminated.

On December 30, 2015, we entered into a Loan Agreement, or the Meydan Loan, with Meydan, pursuant to which Meydan agreed to loan the Company $750,000 on certain terms and conditions. The proceeds of the Meydan Loan were used by us for working capital and general corporate needs. The Meydan Loan bore interest at the rate of Libor plus 8% per annum and was due and payable in 4 equal installments beginning on July 10, 2016. The Meydan Loan was fully paid in March 2018.

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 $4.85 million for the financing of this acquisition. Pursuant to the terms of the FIBI Loan Agreement, $2.425 million 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 million 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 was secured mainly by a floating charge against Micronet's assets and a mortgage on a building owned by Micronet. The loan was subject to customary covenants, terms, conditions, events of default and certain pre-payment provisions. As of May 28, 2015, Micronet repaid the Short Term Portion and borrowed a new loan for the same amount and on the same terms as the prior Short Term Portion for a period of nine months ending on November 29, 2016. As of November 29, 2016, Micronet repaid the Short Term Portion and borrowed a new loan for the same amount and on the same terms as the prior Short Term Portion until January 29, 2017. On May 29, 2017, the FIBI Loan Agreement was fully paid.

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 December 31, 2017, the balance on the

Mercantile Loan was $1,582,000 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.

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 million. 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 million. 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 December 31, 2017, the fair value of this Phantom Stock Option was less than $11,000.

As of December 31, 2017, our total current assets were $25,308,000, as compared to $26,647,000 at December 31, 2016. The decrease is mainly due to the decrease in cash and cash equivalents as described above.

Our trade accounts receivable at December 31, 2017 were $5,183,000 as compared to $3,059,000 at December 31, 2016. The increase is due to the increase in revenues.

As of December 31, 2017, our working capital was $3,062,000, as compared to $7,441,000 at December 31, 2016. The decrease in the working capital primarily is due to the decrease in cash and cash equivalents and a decrease in short term bank loans.

As of December 31, 2017, our total debt (including current portion on long-term loans from others) was $5,168,000 as compared to $7,407,000 at December 31, 2016.

Our bank debt is composed of short-term loans amounting to $1,582,000 as of December 31, 2017 compared to $3,680,000 at December 31, 2016, and long-term loans amounting to $0 as of December 31, 2017 compared to $1,093,000 at December 31, 2016.

Our current debt includes our bank debt described above and loans from YA II:

Our bank debt is composed of short-term loans to Enertec Electronics and Micronet amounting to $1,582,000 as of December 31, 2017 compared to $3,680,000 at December 31, 2016, and long-term loans amounting to $0 as of December 31, 2017 compared to $1,093,000 at December 31, 2016. The short-term loans bear interest rates between Israeli prime (currently 1.6%) plus 1.7% to 2.45%. The long-term loans have maturity dates between July 2018 and July 2019 and bear interest rates Israeli Prime plus 2.45%. Upon the consummation of the sale of Enertec, Coolisys will assume $4,000,000 of such existing net indebtedness owed by Enertec.

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 had not met all of its bank covenants as of December 31, 2017. Certain restricted cash is used as collateral to secure the loan.

As described above, on March 29, 2018, the Company and Enertec Electronics executed and closed on a securities purchase agreement with YA II, whereby the Company issued and sold to YA II (1) the Series A Convertible Debentures in the aggregate principal aggregate amount of $3.2 million and (2) the Series B Convertible Debenture in the principal aggregate amount of $1.8 million.

**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.

In 2018, we paid current portion of certain bank loans and the entire outstanding debt owed to Meydan in a total amount of $1,000,000 and we expect to pay off certain debts owed to YA II in the amount of $1,000,000 by the end of the year, using cash flow from operations or possibly additional debt or equity financings.

In addition, if we are successful in consummating the sale of Enertec to Coolisys, we will receive $5,250,000, subject to certain adjustments, in gross proceeds, as well as have $4,000,000 in Enertec's net debt assumed by Coolisys. There is no guarantee that we will be successful in consummating the sale of Enertec.

The Company filed a Form S-3 registration statement (File No. 333-219596) under the Securities Act of 1933, as amended, with the SEC using a "shelf" registration process, which was declared effective on November 8, 2017. Under this shelf registration process, we may, from time to time, sell common stock, warrants or units in one or more offerings up to a total dollar amount of $30,000,000, pursuant to which we have sold approximately $1,000,000 of our securities under to date.

On June 30, 2016, we entered into a Standby Equity Distribution Agreement, or the 2016 SEDA, with YA II for the sale of up to $2.39 million of shares of the Company's common stock over a three-year commitment period. We utilized our 2016 SEDA for purposes of raising capital. The 2016 SEDA did not impose any restrictions on our operating activities. During the term of the 2016 SEDA, YA II was prohibited from engaging in any short selling or hedging transactions related to our common stock. As of November 17, 2017, we have sold $2,386,750 of our common stock pursuant to the 2016 SEDA and have fully exhausted the shares available under the 2016 SEDA.

On August 22, 2017, we entered into the 2017 SEDA for the sale of up to $10 million of shares of the Company's common stock over a two-year commitment period. Under the terms of the 2017 SEDA, the Company may from time to time, in its discretion, sell newly-issued shares of its common stock to YA II at a discount. The Company intends to utilize the 2017 SEDA once the registration statement registering the shares available under the 2017 SEDA is both filed and declared effective by the SEC.

Based on our current business plan and existing loans, we anticipate that our existing cash balances and cash generated from future sales will be sufficient to permit us to conduct our operations and 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, the YA II loans, the potential proceeds from the sale of Enertec and the 2017 SEDA, and we may seek additional financing from them or through securities offerings. We intend to use such funds in order to expand our operations, refinancing our various debts, develop new products, enhance existing products or respond to competitive pressures. However, we may also undertake additional debt or conduct 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. Further, there is no assurance that we will be able to borrow additional funds 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.

## Critical Accounting Policies

**Principles of consolidation**. The consolidated financial statements include the Company's and its subsidiaries financial statements. 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.

**Accounts receivable and allowances for doubtful accounts**. Our trade receivables include amounts due from customers. We perform ongoing credit evaluations of our customers' financial condition and we require collateral as deemed necessary. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make payments. In judging the adequacy of the allowance for doubtful accounts, we consider multiple factors including the aging of our receivables, historical bad debt experience and the general economic environment. Management applies considerable judgment in assessing the realization of receivables, including assessing the probability of collection and the current creditworthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**Impairment of long-lived assets and goodwill.** In accordance with ASC 360-10, "Accounting for the Impairment or Disposal of Long-lived Assets," long-lived assets, such as property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying value of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying value of the asset exceeds the fair value of the asset. Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized, but rather is subject to an annual impairment test. The Company has two operating segments: Mobile Resource Management and Defense and Aerospace. The goodwill was allocated to one reporting unit which included in the MRM division. The goodwill impairment tests are conducted in two steps. In the first step, the Company determines the fair value of the reporting unit. If the net book value of the reporting unit exceeds its fair value, the Company would then perform the second step of the impairment test which requires allocation of the reporting unit's fair value of all of its assets and liabilities in a manner similar to an acquisition cost allocation, with any residual fair value being allocated to goodwill. The implied fair value of the goodwill is then compared to the carrying value to determine impairment, if any.

**Revenue recognition**.

Revenues from the sales of MRM products are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee payable by the customer is fixed and determinable; and collection of the resulting receivable is reasonably assured. The title and risk of loss passes to the customer, delivery has occurred and acceptance is satisfied once the product leaves the Company premises.

**Income taxes**. Deferred taxes and liabilities are determined utilizing the "asset and liability" method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, when it is more likely than not that deferred tax assets will not be realized in the foreseeable future. Deferred tax liabilities and assets are classified as current or non-current based on the expected reversal dates.

The Company adopted ASC 740-10-05, "Income Tax," which provides guidance for recognizing and measuring uncertain tax positions, and prescribes a threshold condition that a tax position must meet for any of the benefits of the uncertain tax position to be recognized in the financial statements. It also provides accounting guidance on de-recognition, classification and disclosure of these uncertain tax positions. The Company's policy on classification of all interest and penalties related to unrecognized income tax positions, if any, is to present them as a component of income tax expense.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

## Item 8. Financial Statements and Supplementary Data.

The Report of Independent Registered Public Accounting Firm, the Consolidated Financial Statements and the Notes to Consolidated Financial Statements appearing on pages F-2 to F-30 of this Annual Report are incorporated herein by reference.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

## Item 9A. Controls and Procedures

***Evaluation of Disclosure Controls and Procedures***

We conducted an evaluation under the supervision of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), regarding the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2017. Based on the aforementioned evaluation, management has concluded that our disclosure controls and procedures were effective as of December 31, 2017.

***Management’s Report on Internal Control over Financial Reporting***

Our management, including our principal executive officer and our principal financial officer is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorization of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting at December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework* (2013). Based on that assessment under those criteria, management has determined that, at December 31, 2017, our internal control over financial reporting was effective.

***Changes in Internal Control over Financial Reporting***

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of fiscal year 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The members of our board of directors, or the Board, and our executive officers, together with their respective ages and certain biographical information are set forth below. Mr. Lucatz receives no compensation for his services as a board member but is entitled to management services fees paid to a company under his control. Directors hold office until the next annual meeting of our stockholders and until their successors have been duly elected and qualified. Our executive officers are elected by and serve at the designation and appointment of the board of directors.

| Name | Age | Position |
|---|---|---|
| David Lucatz | 61 | Chairman of the Board, Chief Executive Officer and President |
| Tali Dinar | 47 | Chief Financial Officer |
| Chezy (Yehezkel) Ofir(1)(2)(3) | 66 | Director |
| Jeffrey P. Bialos (1)(2)(3) | 62 | Director |
| Miki Balin(1)(2)(3) | 47 | Director |

(1) A member of the Audit Committee.

(2) A member of the Compensation Committee.

(3) A member of the Corporate Governance/Nominating Committee.

The following is a brief account of the business experience of each of our directors and executive officers during the past five years or more.

*David Lucatz*. Mr. Lucatz was elected to our Board and appointed as our President and Chief Executive Officer in May 2010 and as a director of Micronet Ltd., our 50.07% owned subsidiary, in September 2012. Since May 2010, Mr. Lucatz has been serving as the President of Enertec Systems 2001 Ltd., our wholly-owned subsidiary. Since 2006, he has been the Chairman of the Board, President and Chief Executive Officer of DL Capital Ltd., a boutique investment holding company based in Israel specializing in investment banking, deal structuring, business development and public/private fund raising with a strong focus in the defense and homeland security markets. From 2001 until 2006, he was part of the controlling shareholder group and served as a Deputy President and Chief Financial Officer of I.T.L. Optronics Ltd., a publicly-traded company listed on the Tel Aviv Stock Exchange engaged in the development, production and marketing of advanced electronic systems and solutions for the defense and security industries. From 1998 to 2001, he was the Chief Executive Officer of Talipalast, a leading manufacturer of plastic products. Previously, Mr. Lucatz was an executive vice president of Securitas, a public finance investments group. Mr. Lucatz holds a B.Sc. in Agriculture Economics and Management from the Hebrew University of Jerusalem and a M.Sc. in Industrial and Systems Engineering from Ohio State University.

We believe that Mr. Lucatz's experience over the last 25 years in management, operations, finance and business development in corporate turnaround, roll-up and M&A situations, as well as his experience in the electronics defense and homeland security sectors, make him suitable to serve as a director of the Company.

*Tali Dinar*. Mrs. Dinar currently serves as our Chief Financial Officer, as a board member of Micronet and Enertec Electronic's Chief Financial Officer. Mrs. Dinar has served as Chief Financial Officer of Enertec Electronics since 2012, as a Director at Micronet since January 2016 and as a director of Enertec since May 2015. Previously, Mrs. Dinar served as our Chief Financial Officer from May 2010 until May 2015, Chief Financial Officer of Enertec between 2010 and 2014 and the Chief Financial Officer of Micronet from May 2015 until January 2016. From 2002 until 2007, she was the chief controller of I.T.L. Optronics Ltd. Ms. Dinar holds a B.A. in Accounting and Business Management from The College of Management Academic Studies and earned her CPA certificate in 1999.

*Chezy (Yehezkel) Ofir.* Professor Ofir has served on our Board since April 2013. He was appointed as a director of Micronet in September 2012. Professor Ofir has over 20 years of experience in business consulting and corporate management. During this period, Professor Ofir has served as a member of the boards of directors of a large number of companies in various sectors. Professor Ofir has been a director and Chairman of the Financial Reporting Committee of Makhteshim Agam, a leading manufacturer and distributor of crop protection products, has served as a director and member of all board committees of I.T.L. Optronics Ltd., a publicly-traded company listed on the Tel Aviv Stock Exchange engaged in the development, production and marketing of advanced electronic systems and solutions for the defense and security industries, and as a member of the board of directors, Chairman of the Audit Committee and member of all board committees of Shufersal, the largest food and non-food retail chain in Israel. He served as a member of the Executive Export Trade and Marketing Committee of the Industry and Trade Ministry where he evaluated company programs and formulated and recommended funding to the committee. Professor Ofir has been a faculty member at the Hebrew University for more than 20 years. Professor Ofir founded an Executive MBA program for CEOs, which is the first and only program of its kind in Israel. Additionally, Professor Ofir has been the Chairman of the Marketing Department at the Hebrew University Business School for fifteen years. Professor Ofir has been invited as a lecturer or research partner to many top universities, including Stanford University, University of California Berkeley, New York University and Georgetown University. Professor Ofir's publications have been covered in media and leading international business magazines and papers, including The Financial Times, MIT Sloan Management Review and Stanford Business. Professor Ofir holds a B.Sc. and M.Sc. in Engineering and doctorate and master's degrees in Business Administration from Columbia University.

We believe that Professor Ofir's extensive experience in consulting companies on strategic processes, international business development, business and marketing strategy, establishing control systems, products and new product strategies and pricing strategy, makes him suitable to serve as a director of the Company.

*Jeffrey P. Bialos* Mr. Bialos has served on our Board since April 2013. Mr. Bialos has over 30 years of experience in a broad range of domestic and international legal, governmental and public policy positions. He served as Deputy Under Secretary of Defense for Industrial Affairs from January 1999 through December 2001 and in senior positions at the State and Commerce Department during the Clinton Administration and served on Defense Science Board task forces from June 1996 through June 1997. He also was appointed to the Secure Virginia Panel, Virginia's homeland security board, by two Virginia Governors. Mr. Bialos also spent considerable time in private legal practice in Washington, D.C. with two large national law firms (currently, Sutherland, Asbill & Brennan LLP where he has been a partner since 2002 and, previously, Weil, Gotshal & Manges from January 1990 through June 1996). He has represented a wide range of domestic and foreign firms (including large multinational corporations and leading defense and aerospace firms), foreign governments, development institutions such as the European Bank for Reconstruction and Development and the International Finance Corporation, private equity funds, public-private partnerships and other entities, in a diverse range of corporate and commercial, adjudicatory, regulatory, policy and interdisciplinary matters. He has considerable experience in Europe, the Middle East and Asia. Mr. Bialos holds a J.D. from the University of Chicago Law School, a M.P.P. from the Kennedy School of Government at Harvard University and an A.B. from Cornell University. He is a member of the New York Council on Foreign Relations.

We believe that Mr. Bialos' broad and intimate familiarity with the aerospace, defense, information technology, space and homeland security industries and the depth and breadth of his professional experience as a practicing lawyer and former government official, make him suitable to serve as a director of the Company.

*Miki Balin* Mr. Balin has served on our Board since April 2013. Mr. Balin has been the Chief Executive Officer and founder of Targetingedge Ltd., a subsidiary of TLVmedia Ltd. since 2013. Prior to Targetingedge he founded WinBuyer in 2006 and Conversion Methods in 2004, which developed products for e-retailers. Mr. Balin has devoted much of his career to managing marketing-related ventures. Prior to establishing Conversion Methods and WinBuyer, he founded Balin, Adatto & Cohen, a leading healthcare consulting and advertising firm in Israel. He also managed a family-owned food distribution company, and served as general manager of the Rina Shinfeld Ballet Theatre, where he still serves as a director. In 2011, WinBuyer was awarded the "Best Product at eCommerce Expo" for its product Winbuyer 2.0.

We believe that Mr. Balins' experience as a business and marketing executive make him suitable to serve as a director of the Company.

There are no arrangements or understandings with major stockholders, customers, suppliers or others pursuant to which any of our directors or members of senior management were selected as such. In addition, there are no family relationships among our executive officers and directors.

Our future success depends, in significant part, on the continued service of certain key executive officers, managers, and sales and technical personnel, who possess extensive expertise in various aspects of our business. We may not be able to find an appropriate replacement for any of our key personnel. Any loss or interruption of our key personnel's services could adversely affect our ability to implement our business plan. It could also result in our failure to create and maintain relationships with strategic partners that are critical to our success. We do not presently maintain key-man life insurance policies on any of our officers.

**Corporate Governance**

Our board of directors is currently comprised of four directors. Mr. Lucatz, our chairman, President and Chief Executive Officer, is not independent as that term is defined under the Nasdaq Listing Rules. Professor Ofir and Messrs. Bialos, and Balin have been directors since our public offering. Each of Professor Ofir and Messrs. Bialos, and Balin qualify as “independent” under the Nasdaq Listing Rules, and SEC rules with respect to members of boards of directors. Our Audit Committee, Compensation Committee and Corporate Governance/Nominating Committee, and otherwise meet the Nasdaq corporate governance requirements.

Our board of directors has three standing committees: the Compensation Committee, the Audit Committee and the Corporate Governance/Nominating Committee.

**Audit Committee**

The members of our Audit Committee are Professor Ofir, Mr. Bialos and Mr. Balin. Professor Ofir is the Chairman of the Audit Committee, and our board of directors has determined that Professor Ofir is an “Audit Committee financial expert” and that all members of the Audit Committee are “independent” as defined by the rules of the SEC and the Nasdaq rules and regulations. The Audit Committee operates under a written charter that is posted on our website at www.micronet-enertec.com. The primary responsibilities of our Audit Committee include:

Appointing, compensating and retaining our registered independent public accounting firm;

Overseeing the work performed by any outside accounting firm;

Assisting the board of directors in fulfilling its responsibilities by reviewing: (1) the financial reports provided by us to the SEC, our stockholders or to the general public and (2) our internal financial and accounting controls; and

Recommending, establishing and monitoring procedures designed to improve the quality and reliability of the disclosure of our financial condition and results of operations.

**Compensation Committee**

The members of our Compensation Committee are Professor Ofir, Mr. Bialos and Mr. Balin. Professor Ofir is the Chairman of the Compensation Committee and our board of directors has determined that all of the members of the Compensation Committee are "independent" as defined by the rules of the SEC and Nasdaq rules and regulations. The Compensation Committee operates under a written charter that is posted on our website at www.micronet-enertec.com. The primary responsibilities of our Compensation Committee include:

Reviewing and recommending to our board of directors of the annual base compensation, the annual incentive bonus, equity compensation, employment agreements and any other benefits of our executive officers;

Administering our equity based compensation plans and exercising all rights, authority and functions of the board of directors under all of the Company's equity compensation plans, including without limitation, the authority to interpret the terms thereof, to grant options thereunder and to make stock awards thereunder; and

Annually reviewing and making recommendations to our board of directors with respect to the compensation policy for such other officers as directed by our board of directors.

The Compensation Committee meets, as often as it deems necessary, without the presence of any executive officer whose compensation it is then approving. Neither the Compensation Committee nor the Company engaged or received advice from any compensation consultant during 2017.

**Corporate Governance/Nominating Committee**

The members of our Corporate Governance/Nominating Committee are Professor Ofir, Mr. Bialos and Mr. Balin. Professor Ofir is the Chairman of the Corporate Governance/Nominating Committee and our board of directors has determined that all of the members of the Corporate Governance/Nominating Committee are "independent" as defined by Nasdaq rules and regulations. The Corporate Governance/Nominating Committee operates under a written charter that is posted on our website at www.micronet-enertec.com. The primary responsibilities of our Corporate governance and Nominating Committee include:

Assisting the board of directors in, among other things, effecting board organization, membership and function including identifying qualified board nominees; effecting the organization, membership and function of board of directors committees including composition and recommendation of qualified candidates; establishment of and subsequent periodic evaluation of successor planning for the Chief Executive Officer and other executive officers; development and evaluation of criteria for board membership such as overall qualifications, term limits, age limits and independence; and oversight of compliance with applicable corporate governance guidelines; and

Identifying and evaluating the qualifications of all candidates for nomination for election as directors.

Potential nominees will be identified by the board of directors based on the criteria, skills and qualifications that will be recognized by the Corporate Governance/Nominating Committee. In considering whether to recommend any particular candidate for inclusion in the board's slate of recommended director nominees, our Corporate Governance/Nominating Committee will apply criteria including the candidate's integrity, business acumen, knowledge of our business and industry, age, experience, diligence, conflicts of interest and the ability to act in the interests of all stockholders. No particular criteria will be a prerequisite or will be assigned a specific weight, nor do we have a diversity policy. We believe that the backgrounds and qualifications of our directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will result in a well-rounded board of directors and allow the board of directors to fulfill its responsibilities.

There have not been any changes in our process for nominating directors.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than 10% of our common stock, to file reports regarding ownership of, and transactions in, our securities with the SEC and to provide us with copies of those filings. Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during fiscal year ended December 31, 2017, all filing requirements applicable to our officers, directors and ten percent beneficial owners were complied with.

**Code of Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to our directors, executive officers and all of our employees. The Code of Business Conduct and Ethics is available on our website at www.micronet-enertec.com and we will provide, at no charge, persons with a written copy upon written request made to us.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of our Code of Business Conduct and Ethics by posting such information on the website address specified above.

**Item 11. Executive Compensation**

The following information is furnished for the years ended December 31, 2017 and December 31, 2016 for the individuals listed on the table below, who we refer to as our named executive officers.

| Name and Principal Position | Year | Salary (1) | Bonus (2) | Option Awards (3) | All Other Compensation (4) | Total |
|---|---|---|---|---|---|---|
| David Lucatz (5) | 2017 | $ 325,226* | | 0 | 5,278 | 330,504 |
| Chief Executive Officer and President | 2016 | $ 378,711 | $- | 88,539 | $ 7,937 | $475,188 |
| Tali Dinar | 2017 | $ 167,965 | | 12,438 | 25,467 | 205,870 |
| Chief Financial Officer | 2016 | $ 173,803 | $- | $28,333 | $ 24,449 | $226,584 |
| Oren Harari | 2017 | $ 130,097 | $21,285 | $- | $ 7,173 | $158,555 |
| Former Chief Financial Officer (6) | 2016 | - | - | - | - | - |

(1) Salary paid partly in NIS and partly in U.S. dollars. The amounts are converted according to the average foreign exchange rate U.S. dollar/NIS for 2017 and 2016, respectively.

(2) Represents discretionary bonus in connection with the performance and achievements of the Company.

(3) The fair value recognized for such option awards was determined as of the grant date in accordance with Accounting for Standard Codification, or ASC, Topic 718. Assumptions used in the calculations for these amounts are included in Note 13 to our consolidated financial statements for the year ended December 31, 2016 included elsewhere in this Annual Report.

(4) Includes the following: pay-out of unused vacation days, personal use of company car (including tax gross-up), personal use of company cell phone, contributions to manager's insurance (retirement and severance components), contributions to advanced study fund, recreational allowance, premiums for disability insurance and contributions to pension plan. In addition, Ms. Dinar is entitled to receive director compensation from Micronet as a member of the board of directors of Micronet, pursuant to the Israeli Companies Law regulations (compensation and expenses reimbursement for independent directors).Mrs. Dinar's compensation and expenses reimbursement for serving as a director of Micronet amounted to a total of $12,000 and $4,000 for the period ended December 31, 2017 and 2016 respectively.

(5) In November 2012, entities controlled by Mr. Lucatz reached agreements with each of Micronet and the Company, for the provision of management and consulting services to Micronet and the Company, respectively. On November 7, 2012, the board of directors and the Audit Committee of the board of directors of Micronet approved

the entry into a management and consulting services agreement with DLC, pursuant to which, effective November 1, 2012 Mr. Lucatz agreed to devote 60% of his time to Micronet matters for the three year term of the agreement and Micronet agreed to pay the entities controlled by Mr. Lucatz management fees of NIS 65,000 (approximately $18,172) on a monthly basis, and cover other monthly expenses. Such agreement was further subject to the approval of Micronet's stockholders, which was obtained at a special meeting held on January 30, 2013 for that purpose and went into effect following its execution on February 8, 2013. The management and consulting agreement between DLC and Micronet was extended on November 1, 2015 for three years on the same terms and conditions. The management and consulting agreement was approved by Micronet's Board of Directors on October 11, 2015 and approved by Micronet's shareholders on November 16, 2015. On November 26, 2012, DLC entered into a 36-month management and consulting services agreement with the Company, effective November 1, 2012, which provides that we (via any of our directly or indirectly fully owned subsidiaries) will pay the entities controlled by Mr. Lucatz: (1) management fees of $13,333 on a monthly basis, and cover other monthly expenses, (2) an annual bonus of 3% of the amount by which the annual earnings before interest, tax, depreciation and amortization, or EBITDA, for such year exceeds the average annual EBITDA for 2011 and 2010, and (3) a one-time bonus of 0.5% of the purchase price of any acquisition or capital or debt raising transaction, excluding only a specified 2013 public equity offering, completed by us during the term of the agreement. According to the agreement, the management and consulting services agreement between DLC and the Company automatically renewed for a successive one year term on the same terms and conditions.. In July 2017, the scope of the consulting services pursuant to the agreement with D.L. Capital Ltd. was amended to reduce the requirement of the time Mr. Lucatz is to devote to Micronet matters to 22%, with the monthly fee proportionally reduced accordingly.

*As of December 31, 2017, an amount of $50,000 in salary was accrued but not paid.

(6) Mr. Harari was our Chief Financial Officer from January 18, 2017 to September 30, 2017.

**Employment Agreements**

None of our employees is subject to a collective bargaining agreement.

On August 12, 2013, Ms. Dinar entered into an employment agreement with the Company, pursuant to which, Ms. Dinar (1) will receive monthly compensation, comprising base salary and customary Israeli pension and social benefits, of approximately 45,000 NIS (approximately $14,000), (2) shall be entitled to a monthly automobile and telephone allowance of approximately 13,000 NIS (approximately $3,600); and (3) shall be entitled to receive bonuses and stock options as shall be determined by the board of directors in consultation with the our Chief Executive Officer. Ms. Dinar may be deemed an at-will employee, as this employment agreement is not limited to certain duration. The agreement is terminable by either party by providing the other party with 90 days prior written notice. Upon termination, Ms. Dinar will be entitled to her base salary through the date of termination and to all amounts deposited in her favor in pension funds, including payments made for severance unless such rights are denied as a matter of applicable law. However, if Ms. Dinar is terminated due to her committing a crime bearing moral turpitude or for causing the Company substantial harm resulting from a material breach of her duties Ms. Dinar will not be entitled to receive any prior written notice, and severance may be denied. The agreement also contains customary confidentiality, non-competition and non-solicitation provisions. On August 1, 2016, Ms. Dinar's monthly compensation, consisting of her base salary and customary Israeli pension and social benefits, was increased to approximately 52,000 NIS (approximately $14,500).

In September 2017, Ms. Dinar's monthly compensation, consisting of her base salary and customary Israeli pension and social benefits, was decreased to approximately 35,000 NIS (approximately $10,000) and Ms. Dinar agreed to devote 60% of her time to Company matters. In conjunction with Ms. Dinar's appointment as Chief Financial Officer of the Company and her employment on full time basis, from September 1, 2017 to February 28, 2018, her base salary will be reduced to 27,000 NIS (approximately $7,700), with such compensation arrangement to be revisited at the end of such term. If Ms. Dinar is terminated for a reason other than cause, her severance and termination terms will be determined assuming a salary of 52,000 NIS (approximately $14,500). In addition, the Company granted Ms. Dinar 12,500 shares of restricted stock.

On November 7, 2012, Ms. Dinar entered into an employment agreement with Micronet whereby she devoted 80% of her time to Micronet. On May 14, 2015, Ms. Dinar was appointed by the board of directors of Micronet as the Chief Financial Officer of Micronet, effective immediately and terminated her position as Chief Financial Officer On January 12, 2016, Ms. Dinar resigned from her position as Micronet's Chief Financial Officer. Commencing on January 12, 2016, Ms. Dinar was appointed as Chief Financial Officer of Enertec Electronics.

**Outstanding Equity Awards**

During, 2017, no options were issued to our directors, officers and employees under the 2012 Stock Incentive Plan, as described below. The following table presents the outstanding equity awards held as of December 31, 2017, by our named executive officers:

| Name | Option Awards Number of securities underlying unexercised options (#) exercisable | Number of securities underlying unexercised options unexercisable | Option exercise price ($) | Option expiration date |
|---|---|---|---|---|
| David Lucatz | 250,000 | - | 4.30 | 11/11/2024 |
| Tali Dinar | 80,000 | - | 4.30 | 11/11/2024 |

**<u>Director Compensation</u>**

The following table provides information regarding compensation earned by, awarded or paid to each person for serving as a director who is not an executive officer during the fiscal year ended December 31, 2017:

| Name(1) | | Fees Earned ($) (4) | **Option Awards ($)(2)(3)** | **All Other Compensation ($)** | Total ($) |
|---|---|---|---|---|---|
| Chezy (Yehezkel) Ofir | 2017 | $12,000 | $ 891 | - | $12,891 |
| Jeffrey P. Bialos | 2017 | $12,000 | $ 891 | - | $12,891 |
| Miki Balin | 2017 | $12,000 | $ 891 | - | $12,891 |

(1) Mr. Lucatz, who serves as our Chairman, Chief Executive Officer and President, is not included in this table because he receives no compensation for his services as a director. The compensation received by Mr. Lucatz is as shown above in the Summary Compensation Table.

(2) The fair value recognized for such option awards was determined as of the grant date in accordance with Accounting for ASC Topic 718. Assumptions used in the calculations for these amounts are included in Note 13 to our consolidated financial statements for the year ended December 31, 2017 included elsewhere in this Annual Report.

(3) As of December 31, 2017, each of the directors listed in the table above held options to purchase 10,000 shares of Common Stock at an exercise price of $4.30 per share, 5,000 of which were granted on April 29, 2013 and 5,000 of

which were granted on November 11, 2014. Such options vest within three years following the date of grant.

(4) During 2017, our directors received compensation for serving on our board in the amount of $38,673. Independent directors received $12,000 plus applicable taxes for each year of service as directors. Independent directors receive $250 (or $100 if the director participates via telephone or video conference) for each meeting in excess of three meetings in any month and reimbursement of expenses.

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Other than as described above, we have no present formal plan for compensating our directors for their service in their capacity as directors. Directors are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of our board of directors. The board of directors may award special remuneration to any director undertaking any special services on our behalf other than services ordinarily required of a director. Other than indicated above, no director received and/or accrued any compensation for his or her services as a director, including committee participation and/or special assignments during 2017.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table sets forth certain information, as of April 13, 2018 with respect to the beneficial ownership of the outstanding common stock held by (1) each person known by us to be the beneficial owner of more than 5% of our common stock; (2) our current directors; (3) each of our named executive officers; and (4) our executive officers and current director as a group. Unless otherwise indicated, the persons named in the table below have sole voting and investment power with respect to the number of shares indicated as beneficially owned by them. Unless otherwise indicated, the address for each of the below persons is c/o Micronet Enertec Technologies, Inc., 27 Hametzuda St., Azur 58001 Israel.

| **Name** | **Number of Shares Beneficially Owned** | **Percentage of Shares Beneficially Owned(1)** | |
|---|---|---|---|
| **5% Stockholders** | | | |
| D.L. Capital Ltd.(2) | 2,597,200 | 27.08 | % |
| UTA Capital LLC(3) | 726,746 | 7.57 | % |
| Meydan(4) | 600,000 | 6.25 | % |
| **Directors and Named Executive Officers** | | | |
| David Lucatz(2) | 2,847,200 | 29.68 | % |
| Tali Dinar(5) | 92,500 | 0.1 | % |
| Chezy (Yehezkel) Ofir(6) | 10,000 | 0.10 | % |
| Jeffrey P. Bialos(7) | 27,424 | 0.28 | % |
| Miki Balin(8) | 10,000 | 0.10 | % |
| Oren Harari | 0 | 0 | % |
| Directors and executive officers as a group (5 persons) (9) | 2,987,125 | 36.66 | % |

(1) Applicable percentage ownership is based on 9,580,465 shares of Common Stock outstanding as of April 13, 2018, together with securities exercisable or convertible into shares of Common Stock within 60 days of March 31, 2018 for each stockholder. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of Common Stock that are currently exercisable or exercisable within 60 days of March 31, 2018 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not

treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) Mr. Lucatz, by virtue of being the controlling shareholder of DLC as well as the Chief Executive Officer and Chairman of the board of directors of DLC, may be deemed to beneficially own the 2,597,200 shares of our Common Stock held by DLC.

(3) According to information contained in Schedule 13G/A filed jointly on February 18, 2014 with the SEC and a Form 4 filed jointly on November 12, 2014 with the SEC by (1) UTA Capital LLC; (2) the members or beneficial owners of membership interests in UTA, which include (a) YZT Management LLC, a New Jersey limited liability company and the managing member of UTA, and (b) Alleghany Capital Corporation, a Delaware corporation and a member of UTA; (3) Alleghany Corporation, a publicly-traded Delaware corporation of which Alleghany Capital Corporation is a wholly-owned subsidiary; and (iv) Udi Toledano, the managing member of YZT Management LLC. Based on those filings and information subsequently available to us, as of March 31, 2017, UTA held sole voting and dispositive power with respect to such shares. YZT Management LLC, Alleghany Capital Corporation, Alleghany Corporation, and Udi Toledano have shared voting and dispositive power with respect to such shares by virtue of their relationships with UTA. UTA's principal business address is 100 Executive Drive, Suite 330, West Orange, New Jersey.

(4) According to information contained in a Schedule 13G/A filed on May 9, 2013 with the SEC. Based on this filing and information subsequently available to us, as of April 14, 2016, Meydan held sole voting and dispositive power with respect to such shares. Meydan's principal business address is 38A Lansell Road, Toorak, Australia VIC 3142.

(5) Includes 80,000 shares of common stock issuable upon the exercise of stock options owned by Mrs. Dinar.

(6) Includes 10,000 shares of common stock issuable upon the exercise of stock options owned by Mr. Ofir.

(7) Includes 10,000 shares of common stock issuable upon the exercise of stock options owned by Mr. Bialos.

(8) Includes 10,000 shares of common stock issuable upon the exercise of stock options owned by Mr. Balin.

(9) Includes 360,000 shares of common stock issuable upon the exercise of stock options beneficially owned by the referenced persons.

**Securities Authorized For Issuance Under Equity Compensation Plans**

The following table summarizes the options granted under the 2012 Stock Incentive Plan and 2014 Stock Incentive Plan as of December 31, 2017. The shares covered by outstanding options are subject to adjustment for changes in capitalization, stock splits, stock dividends and similar events.

| Plan Category | Number of securities to be issued | Weighted-average exercise price of outstanding | Number of securities remaining |
|---|---|---|---|

| | upon exercise of outstanding options, warrants and rights | options, warrants and rights | available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 461,000 | 4.30 | 2,539,000 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 461,000 | 4.30 | 2,539,000 |

Pursuant to our 2012 Stock Incentive Plan, as amended, our board of directors is authorized to award stock options to purchase shares of common stock to our officers, directors, employees and certain others, up to a total of 3,000,000 shares of common stock, subject to adjustment in the event of a stock split, stock dividend, recapitalization or similar capital change.

Pursuant to our 2014 Stock Incentive Plan, our board of directors is authorized to issue stock options, restricted stock and other awards to officers, directors, employees, consultants and other service providers in an amount up to a total of 200,000 shares of common stock.

As of December 31, 2017, 120,275 stock options remain available for future awards under the 2014 Stock Incentive Plan.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Our policy is to enter into transactions with related parties on terms that are on the whole no less favorable to us than those that would be available from unaffiliated parties at arm’s length. Based on our experience in the business sectors in which we operate and the terms of our transactions with unaffiliated third parties, we believe that all of the transactions described below met this policy standard at the time they occurred.

As described above, Micronet and the Company have executed a management and consulting services agreement with entities controlled by Mr. Lucatz.

On December 30, 2015, we entered into the Meydan Loan pursuant to which Meydan agreed to loan the Company $750,000 on certain terms and conditions. As of December 31, 2017, the balance of the loan was $326,000. The Meydan Loan was fully paid in in March 2018.

Except as described above, no director, executive officer, principal stockholder holding at least 5% of our Common Stock, or any family member thereof, had or will have any material interest, direct or indirect, in any transaction, or proposed transaction, during 2017 or 2016 in which the amount involved in the transaction exceeded or exceeds $120,000 or one percent of the average of our total assets at the year-end for the last two completed fiscal years.

**Item 14. Principal Accounting Fees and Services.**

The fees billed by BDO Ziv Haft, our independent registered public accounting firm, for professional services provided to the Company for each of the last two fiscal years were as follows:

| | Year ended on December 31, 2017 | Year ended on December 31, 2016 |
|---|---|---|
| Audit Fees | $ 86,500 | $ 100,000 |
| Audit-Related Fees | - | $ 6,500 |
| Tax Fees | $ 18,000 | $ 25,500 |
| All Other Fees | - | - |

| | | |
|---|---|---|
| Total Fees | $ 104,500 | $ 132,000 |

**Audit Fees**

Audit fees are for audit services for each of the years shown in this table, review of our quarterly financial results submitted on Form 10-Q, and performance of local statutory audits.

**Audit-Related Fees**

Audit-related fees relate to assurance and associated services that traditionally are performed by the independent auditor, due diligence services and other services.

**Tax Fees**

Tax fees are for professional services rendered by our auditors for tax advice on actual or contemplated transactions, audit of tax return and IIA incentives.

**Audit Committee Pre-Approval Policies and Procedures**

Currently, the audit committee acts with respect to audit policy, choice of auditors, and approval of out of the ordinary financial transactions. The audit committee pre-approves all services provided by our independent registered public accounting firm. All of the above services and fees were reviewed and approved by the audit committee before the services were rendered.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

1. Reference is made to the Report of Independent Registered Public Accounting Firm, the Consolidated Financial Statements and the Notes to Consolidated Financial Statements under Item 8 of Part II appearing on pages F-1 through F-30 hereto, which are incorporated herein by reference.

2. *Financial Statement Schedules:*

None.

3. *Exhibit Index.*

The following is a list of exhibits filed as part of this Annual Report:

| **Number** | **Description of Exhibits** |
|---|---|
| 2.1 | Share Purchase Agreement, dated December 31, 2017 among Micronet Enertec Technologies Inc., Enertec Management Ltd., Enertec Systems 2001 Ltd. and Coolisys Technologies Inc. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 2, 2018) |
| 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). |
| 4.1 | Common Stock Purchase Warrant dated June 30, 2016 (Incorporated by reference to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 5, 2016) |
| 4.2 | |

| | |
|---|---|
| | Common Stock Purchase Warrant dated October 28, 2016 (Incorporated by reference to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 1, 2016) |
| 4.3 | Amendment to Stock Purchase Warrant dated June 30, 2016 (Incorporated by reference to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 1, 2016) |
| 4.4 | Common Stock Purchase Warrant dated December 22, 2016 (Incorporated by reference to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 23, 2016) |
| 4.5 | Form of Series A Convertible Debenture (Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 4, 2018) |
| 4.6 | Form of Series B Convertible Debenture (Incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 4, 2018) |
| 4.7 | Form of Warrant issued to YA II on March 29, 2018 (Incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 4, 2018) |
| 10.1 | Consulting Agreement, dated August 12, 2009, between D.L. Capital Ltd. and Enertec Systems 2001 Ltd. (Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed with the Securities and Exchange Commission on March 31, 2010) + |
| 10.2 | First Amendment to Consulting Agreement, dated as of October 1, 2011, between D.L. Capital and Enertec Systems 2001 Ltd. (Incorporated by reference to our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 30, 2012) + |
| 10.3 | Management and Consulting Services Agreement, dated November 26, 2012, between D.L. Capital Ltd. and the Registrant (Incorporated by reference to Exhibit 10.3 of Amendment No. 1 to our registration statement on Form S-1 (File No. 333-185470), filed with the Securities and Exchange Commission on February 8, 2013) + |
| 10.4 | Management and Consulting Services Agreement, dated February 8, 2013, between Micronet Ltd. and D.L. Consulting Group (1998) Ltd. (English Translation) (Incorporated by reference to Exhibit 10.4 of Amendment No. 1 to our registration statement on Form S-1 (File No. 333-185470), filed with the Securities and Exchange Commission on February 8, 2013) + |
| 10.5 | Amended and Restated Note and Warrant Purchase Agreement, dated as of September 7, 2012, by and between the Registrant and UTA Capital LLC (Incorporated by reference to our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2012, filed with the Securities and Exchange Commission on November 19, 2012) |

| | |
|---|---|
| 10.11 | 2012 Stock Incentive Plan, as amended to date (Incorporated by reference to Exhibit A to our Proxy Statement on Schedule 14A (File No. 001-35850) filed with the Securities and Exchange Commission on September 10, 2015) + |
| 10.12 | 2014 Stock Incentive Plan (Incorporated by reference to Exhibit "C" to our Proxy Statement (File No. 001-35850), filed with the Securities and Exchange Commission on August 26, 2014) + |
| 10.13 | Form of Stock Option Agreement (Incorporated by reference to Exhibit 10.3 of our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2014, filed with the Securities and Exchange Commission on November 6, 2014 |
| 10.14 | Special Personal Employment Agreement, dated November 7, 2012, between Micronet Ltd. and Tali Dinar (English Translation) (Incorporated by reference to Exhibit 10.18 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) + |
| 10.15 | Personal Employment Agreement, dated October 1, 2011, between Tali Dinar and Enertec Electronics Ltd. (English Translation) (Incorporated by reference to Exhibit 10.19 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) |
| 10.16 | Summary of material terms of a December 17, 2012 bank loan to Enertec Electronics Ltd. (Incorporated by reference to Exhibit 10.20 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) |
| 10.17 | Shareholder Agreement, dated March 17, 2013, between Enertec Electronics Ltd. and Shlomo Shalev (English Translation) (Incorporated by reference to Exhibit 10.21 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) |
| 10.18 | Summary of Loan Undertaking, dated May 29, 2014, by and between Micronet Ltd. and First International Bank of Israel. (Incorporated by reference to Exhibit 10.18 of our Post-Effective Amendment No. 1 to our Registration Statement on Form S-1 (File No. 333-185470), filed with the Securities and Exchange Commission on June 12, 2014) |
| 10.19 | Personal Employment Agreement, dated January 18, 2017, between the Company and Oren Harari (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 18, 2017) + |
| 10.20 | Standby Equity Distribution Agreement, dated as of June 30, 2016, between Micronet Enertec Technologies, Inc. and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 5, 2016) |
| 10.21 | Note Purchase Agreement, dated as of June 30, 2016, between Micronet Enertec Technologies, Inc., Enertec Electronics Ltd. and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 5, 2016) |

| | |
|---|---|
| 10.22 | Note Purchase Agreement, dated as of October 28, 2016, between Micronet Enertec Technologies, Inc., Enertec Electronics Ltd. and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 1, 2016) |
| 10.23 | Supplemental Agreement, dated December 22, 2016, between Micronet Enertec Technologies, Inc., Enertec Electronics Ltd and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 23, 2016) |
| 10.24 | Form of Promissory Note issued to YA II PN, Ltd. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 23, 2016) |
| 10.25 | Amendment No. 1 to Supplemental Agreement, dated January 24, 2017, between Micronet Enertec Technologies, Inc., Enertec Electronics Ltd. and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 24, 2017) |
| 10.26 | Supplemental Agreement, dated June 8, 2017, between Micronet Enertec Technologies, Inc., Enertec Electronics Ltd and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 9, 2017) |
| 10.27 | Form of Promissory Note (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 9, 2017) |

| | |
|---|---|
| 10.28 | Standby Equity Distribution Agreement, dated as of August 22, 2017, between Micronet Enertec Technologies, Inc. and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 25, 2017) |
| 10.29 | Supplemental Agreement, dated as of August 22, 2017, between Micronet Enertec Technologies, Inc., Enertec Electronics Ltd and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 25, 2017) |
| 10.30 | Promissory Note, dated as of August 22, 2017, between Micronet Enertec Technologies, Inc., Enertec Electronics Ltd and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 25, 2017) |
| 10.31 | Letter Agreement dated November 19, 2017, between Micronet Enertec Technologies, Inc. and YA II PN, Ltd. relating to Supplemental Agreement dated August 22, 2017 (Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q or the quarter ended September 30, 2017, filed with the Securities and Exchange Commission on November 20, 2017) |
| 10.32 | Letter Agreement dated November 19, 2017, between Micronet Enertec Technologies, Inc. and YA II PN, Ltd. relating to Standby Equity Distribution Agreement dated August 22, 2017 (Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q or the quarter ended September 30, 2017, filed with the Securities and Exchange Commission on November 20, 2017) |
| 10.33 | Securities Purchase Agreement, dated November 24, 2017 by and between Micronet Enertec Technologies Inc. and D-Beta One EQ, Ltd. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 24, 2017) |
| 10.34 | Consulting Agreement, among Micronet Enertec Technologies Inc., Enertec Management Ltd., Enertec Systems 2001 Ltd. and Coolisys Technologies Inc. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 2, 2018) |
| 10.35 | Securities Purchase Agreement, dated February 22, 2018 by and between Micronet Enertec Technologies Inc. and D-Beta One EQ, Ltd. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 22, 2018) |
| 10.36 | Securities Purchase Agreement, dated March 29, 2018 by and between Micronet Enertec Technologies Inc. and YA II PN, LTD (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 4, 2018) |
| 21.1 | List of Subsidiaries (Incorporated by reference to our Annual Report on Form 10-K, for the fiscal year ended December 31, 2013, filed with the Securities and Exchange Commission on March 19, 2014) |
| 23.1* | Consent of Ziv Haft, BDO member firm |
| 31.1* | Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act |
| 31.2* | Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act |

| | |
|---|---|
| 32.1** | Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code |
| 32.2** | Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code |
| 101* | The following materials from the Registrant, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2017 and December 31, 2016, (ii) Consolidated Statements of Income for Years Ended December 31, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Income for Years Ended December 31, 2017 and 2016, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Changes in Equity, and (vi) Notes to Consolidated Financial Statements. |

* Filed herewith

** Furnished herewith

+ Indicates management contract or compensatory plan or arrangement.

**Item 16. 10-K Summary.**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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: April 13, 2018 | By: | /s/ David Lucatz |
| | Name: | David Lucatz |
| | Title: | Chairman, President and Chief Executive Officer (Principal Executive Officer) |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| **Signature** | **Title** | **Date** |
|---|---|---|
| /s/ David Lucatz<br>David Lucatz | Chairman, President and Chief Executive Officer, (Principal Executive Officer) | April 13, 2018 |
| /s/ Tali Dinar<br>Tali Dinar | Chief Financial Officer (Principal Financial and Accounting Officer) | April 13, 2018 |
| /s/ Jeffrey P. Bialos<br>Jeffrey P. Bialos | Director | April 13, 2018 |
| /s/ Miki Balin<br>Miki Balin | Director | April 13, 2018 |
| /s/ Chezy (Yehezkel) Ofir<br>Chezy (Yehezkel) Ofir | Director | April 13, 2018 |

**MICRONET ENERTEC TECHNOLOGIES INC.**

**2017 CONSOLIDATED FINANCIAL STATEMENTS**

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**The amounts are stated in U.S. dollars ($).**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To The Board of Directors and Stockholders of Micronet Enertec Technologies, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Micronet Enertec Technologies, Inc. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of comprehensive loss, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2012.

Tel Aviv, Israel

April 13, 2018

/s/ Ziv Haft
Ziv Haft

Certified Public Accountants (Isr.)

BDO Member Firm

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**MICRONET ENERTEC TECHNOLOGIES, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(In Thousands, except Share and Par Value data)**

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,114 | $ 539 |
| Restricted cash | 284 | 594 |
| Marketable securities | - | 2,978 |
| Trade accounts receivable, net | 5,183 | 3,059 |
| Inventories | 4,979 | 4,290 |
| Other accounts receivable | 1,092 | 306 |
| Held for sale assets | 11,656 | 14,881 |
| Total current assets | 25,308 | 26,647 |
| | | |
| Property and equipment, net | 910 | 965 |
| Intangible assets, net | 1,494 | 2,294 |
| Deferred tax assets | 542 | 483 |
| Long-term deposit | 12 | 61 |
| Goodwill | 1,466 | 1,466 |
| Total long-term assets | 4,424 | 5,269 |
| | | |
| Total assets | $ 29,732 | $ 31,916 |

**MICRONET ENERTEC TECHNOLOGIES, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(In Thousands, except Share and Par Value data)**

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| LIABILITIES AND EQUITY | | |
| Short-term bank credit and current portion of long-term bank loans | $ 1,582 | $ 3,680 |
| Short-term credit from others and current portion of long-term loans from others | 2,207 | 2,446 |
| Trade accounts payable | 3,973 | 2,233 |
| Other accounts payable | 3,146 | 1,250 |
| Held for sale liabilities | 11,338 | 10,010 |
| Total current liabilities | 22,246 | 19,619 |
| Long-term loans from banks | - | 1,093 |
| Long-term loan from others | 1,379 | 188 |
| Accrued severance pay, net | 133 | 58 |
| Total long-term liabilities | 1,512 | 1,339 |
| Stockholders' Equity: | | |
| Preferred stock; $.001 par value, 5,000,000 shares authorized, none issued and outstanding | | |
| Common stock; $.001 par value, 25,000,000 shares authorized, 8,645,656 and 6,385,092 shares issued and outstanding as of December 31, 2017 and 2016, respectively | 8 | 6 |
| Additional paid in capital | 10,881 | 8,748 |
| Accumulated other comprehensive income | (363) | 11 |
| Retained loss | (10,147) | (1,990) |
| Micronet Enertec stockholders' equity | 379 | 6,775 |
| Non-controlling interests | 5,595 | 4,183 |
| Total equity | 5,974 | 10,958 |
| Total Liabilities and equity | $ 29,732 | $ 31,916 |

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**MICRONET ENERTEC TECHNOLOGIES, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**

**(In Thousands, Except Share and Loss Per Share data)**

| | Year ended December 31, 2017 | 2016 |
|---|---|---|
| Revenues | $18,366 | $13,284 |
| Cost of revenues | 14,094 | 10,657 |
| Gross profit | 4,272 | 2,627 |
| Operating expenses: | | |
| Research and development | 1,964 | 1,802 |
| Selling and marketing | 1,883 | 1,352 |
| General and administrative | 4,116 | 4,535 |
| Amortization of intangible assets | 978 | 926 |
| Total operating expenses | 8,941 | 8,615 |
| Loss from operations | (4,669) | (5,988) |
| Finance expense, net | 401 | 319 |
| Loss before provision for income taxes | (5,070) | (6,307) |
| Taxes on income (benefit) | (10) | (45) |
| Net loss from continued operation | (5,060) | (6,262) |
| Net loss from discontinued operation | (4,901) | (1,251) |
| Total Net Loss | (9,961) | (7,513) |
| Net loss attributable to non-controlling interests | 1,804 | 1,706 |
| Net loss attributable to Micronet Enertec | $(8,157) | $(5,807) |
| Loss per share attributable to Micronet Enertec: | | |
| Basic and diluted loss per share from continued operation | $(0.70) | $(0.76) |
| Basic and diluted loss per share from discontinued operation | $(0.68) | $(0.21) |
| Weighted average common shares outstanding: | | |
| Basic and diluted | 7,128,655 | 5,966,622 |

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**MICRONET ENERTEC TECHNOLOGIES, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(In Thousands)**

| | Year ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Net loss | $(9,961) | $(7,513) |
| Other comprehensive Income (loss), net of tax: | | |
| Currency translation adjustment | 218 | 79 |
| Total comprehensive loss | (9,743) | (7,434) |
| Comprehensive loss attributable to the non-controlling interests | 1,062 | 1,834 |
| Comprehensive loss attributable to Micronet Enertec | $(8,681) | $(5,600) |

**MICRONET ENERTEC TECHNOLOGIES, INC.**

**STATEMENTS OF CHANGES IN EQUITY**

**(In Thousands, Except Numbers of Shares)**

| | Common Stock | | **Additional Paid-in** | Retained | Accumulated Other Comprehensive | Non-controlling | Total Stockholders' |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | Income | Interest | Equity |
| Balance, December 31, 2013 | 5,831,246 | $6 | $ 8,053 | $ 8,423 | $ 1,389 | $ 7,727 | $ 25,598 |
| Shares issued to service provider | 25,000 | - | 94 | - | - | - | 94 |
| Stock based compensation | - | - | 308 | - | - | - | 308 |
| Comprehensive loss | - | - | - | (2,139) | (1,064) | (825) | (4,028) |
| Acquisition of non-controlling interest | - | - | (950) | - | - | (773) | (1,723) |
| Balance, December 31, 2014 | 5,856,246 | $6 | $ 7,505 | $ 6,284 | $ 325 | $ 6,129 | $ 20,249 |
| Shares issued to service provider | 8,975 | - | 30 | - | - | - | 30 |
| Stock based compensation | - | - | 306 | - | - | - | 306 |
| Comprehensive loss | - | - | - | (2,467) | (521) | (89) | (3,077) |
| Acquisition of non-controlling interest | - | - | (29) | - | - | (23) | (52) |
| Balance, December 31, 2015 | 5,865,221 | $6 | $ 7,812 | $ 3,817 | $ (196) | $ 6,017 | $ 17,456 |
| Shares issued to service provider | 13,500 | - | 26 | - | - | - | 26 |
| Stock based compensation | - | - | 268 | - | - | - | 268 |
| Issuance of warrants | - | - | 62 | - | - | - | 62 |
| Comprehensive loss | - | - | | (5,807) | 207 | (1,834) | (7,434) |
| Issuance of shares, net | 506,371 | - | 580 | - | - | - | 580 |
| Balance, December 31, 2016 | 6,385,092 | 6 | 8,748 | (1,990) | 11 | 4,183 | 10,958 |
| Shares issued to service provider | 32,250 | | 36 | | | | 36 |
| Stock based compensation | | | 25 | | | | 25 |
| Issuance of warrants | | | 103 | | | | 103 |
| Comprehensive loss | | | | (8,157) | (374) | (1,212) | (9,743) |
| Issuance of shares in Micronet subsidiary | | | | | | 2,474 | 2,474 |
| Stock based compensation in subsidiary | | | (150) | | | 150 | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Issuance of shares, net | 2,228,314 | 2 | 2,119 | | | | 2,121 |
| Balance, December 31, 2017 | 8,645,656 | 8 | 10,881 | (10,147 ) | (363 ) | 5,595 | 5,974 |

**MICRONET ENERTEC TECHNOLOGIES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In Thousands)**

| | Year ended December 31, 2017 | 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net loss from continued operation | $(5,060) | $(6,262) |
| **Adjustments to reconcile net loss to net cash used in operating activities:** | | |
| Depreciation and amortization | 1,322 | 1,268 |
| Marketable securities | (71) | 28 |
| Change in fair value of derivatives, net | 7 | (37) |
| Change in deferred taxes, net | (7) | (18) |
| Accrued interest and exchange rate differences on bank loans | 271 | 145 |
| Accrued interest and exchange rate differences on loans from others | (251) | 687 |
| Stock based compensation and shares issued to service providers | 213 | 295 |
| **Changes in operating assets and liabilities:** | | |
| Decrease (increase) in trade accounts receivable | (2,474) | 107 |
| Decrease (increase) in inventories | (1,040) | 969 |
| Increase in accrued severance pay, net | 75 | 10 |
| Decrease (increase) in other accounts receivable | (737) | 703 |
| Increase (decrease) in trade accounts payable | 1,740 | (2,281) |
| Increase (decrease) in other accounts payable | 1,939 | (229) |
| **Net cash used in operating activities** | $(4,073) | $(4,615) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchase of property and equipment | (189) | (151) |
| Restricted cash | 311 | 119 |
| Sale of marketable securities | 3,049 | 2,637 |
| **Net cash provided by investing activities** | $3,171 | $2,605 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Bank loans, net | (3,561) | (1,285) |
| Receipt of loan from others | 1,950 | 1,957 |
| Repayment of loans from others | (700) | (833) |
| Issuance of shares by subsidiary, net | 2,474 | - |
| Issuance of warrants | 103 | 62 |
| Issuance of shares, net | 2,121 | 580 |
| **Net cash provided by financing activities** | $2,387 | $481 |

| | | |
|---|---|---|
| **NET CASH DECREASE IN CASH AND CASH EQUIVALENTS** | 1,485 | (1,529) |
| | | |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 539 | 2,189 |
| **TRANSLATION ADJUSTMENT OF CASH AND CASH EQUIVALENTS** | 90 | (121) |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | $2,114 | $539 |

Supplemental disclosure of cash flow information:
Amount paid during the period for:

| | | |
|---|---|---|
| Interest | $172 | $217 |
| Taxes | $24 | $164 |

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**MICRONET ENERTEC TECHNOLOGIES, INC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(In Thousands)**

**NOTE 1 — DESCRIPTION OF BUSINESS**

***Overview***

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., or we, Micronet Enertec or the Company.

We operate primarily through two Israel-based companies, Enertec Systems 2001 Ltd., or Enertec, our wholly-owned subsidiary, and Micronet Ltd., or Micronet, in which we held 50.07% as of December 31, 2017 and is controlled by us.

On February 23, 2017, Micronet filed an immediate report with the Tel Aviv Stock Exchange announcing that it had closed on a public offering of its ordinary shares and sold an aggregate of 6,100,000 of its ordinary shares for aggregate gross proceeds of NIS 9,844,020. As a result of the public offering, our ownership interest in Micronet was diluted from 62.9% to 49.31%. In order to maintain a controlling interest of Micronet, on February 27, 2017, we purchased an additional 140,000 shares of Micronet in a separate transaction with a shareholder of Micronet. In addition, on February 28, 2017, Mr. David Lucatz, our President and Chief Executive Officer, executed an irrevocable proxy assigning his voting power over 45,000 shares of Micronet for our benefit. As a result, our voting interest of Micronet was increased to 50.1% of the issued and outstanding shares of Micronet.

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 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 telematics service providers and solution providers specializing in the MRM market.

Enertec operates in the Aerospace and Defense 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.

On December 31, 2017, the Company, Enertec and our wholly owned subsidiary, Enertec Management Ltd., entered into a Share Purchase Agreement, or the Share Purchase Agreement, with Coolisys Technologies Inc., or Coolisys, a subsidiary of DPW Holdings, Inc., or DPW, pursuant to which we agreed to sell the entire share capital of Enertec to Coolisys. As consideration for the sale of Enertec's entire share capital, Coolisys has agreed to pay, at the closing of the transaction, a purchase price of $5,250, as well as assume up to $4,000 of Enertec debt which consideration may be subject to certain adjustments set forth in the Share Purchase Agreement. Enertec met the definition of a component as defined by Accounting Standards Codification , or ASC, Topic 205, since Enertec t has been classified as held for sale and the Company believes the sale represents a strategic shift in its business. Accordingly, its assets and liabilities were classified as held for sale and the results of operations in the statement of operations and prior periods' results have been reclassified as discontinued operation (see Note 17).

## NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant inter-company transactions and balances among the Company and its subsidiaries are eliminated upon consolidation.

### Functional Currency

The functional currency of Micronet Enertec is the U.S. dollar. The functional currency of certain subsidiaries is their local currency. The financial statements of those companies are included in consolidation, based on translation into U.S. dollars. Assets and liabilities are translated at year-end-exchange rates, while revenues and expenses are translated at monthly average exchange rates during the year. Differences resulting from translation are presented in the consolidated statements of comprehensive income.

### 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.

### Principles of Consolidation

The consolidated financial statements are comprised 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 lost. Intercompany transactions and balances are eliminated upon consolidation.

**Cash and Cash Equivalents**

Cash equivalents are considered by the Company to be highly-liquid investments, including inter-alia, short-term deposits with banks, which do not exceed maturities of three months at the time of deposit and which are not restricted.

**Investments in Marketable Securities**

Management determines the appropriate classification of its investments at the time of purchase and reevaluates such determinations at each balance sheet date. Investments in marketable securities are classified as “trading,” and unrealized gains or losses are reported in the statement of income.

Revenues from the sales of MRM products are recognized when persuasive evidence of an arrangement exists; delivery has occurred, consideration is fixed and determinable; and collection of the resulting receivable is reasonably assured. The title and risk of loss passes to the customer, delivery has occurred and acceptance is satisfied as the product leaves the Company premises.

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**Allowance for Doubtful Accounts**

The Company establishes an allowance for doubtful accounts to ensure trade and financing receivables are not overstated due to uncollectability. The allowance for doubtful accounts was based on specific receivables, which their collection, in the opinion of Company's management, is in doubt. Trade receivables are charged off in the period in which they are deemed to be uncollectible. As of December 31, 2017 and 2016, the allowance for doubtful accounts amounted to $0 and $271, respectively.

**Reclassifications**

Certain balance sheet amounts and cash flow have been reclassified to conform with the current year presentation.

**Inventories**

Inventories of raw materials are stated at the lower of cost (first-in, first-out basis) or realizable value. Cost of work in process is comprised of direct materials, direct production costs and an allocation of production overheads based on normal operating capacity.

**Property and Equipment**

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over their estimated useful lives. Annual rates of depreciation are as follows:

| | |
|---|---|
| Leasehold improvements | Over the shorter of the lease term or the life of the assets |
| Machinery and equipment | 7-14 years |
| Furniture and fixtures | 10-14 years |

| | |
|---|---|
| Transportation equipment | 7 years |
| Computer equipment | 3 years |

**Stock Based Compensation**

The Company accounts for stock based compensation under the fair market value method under which compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. For stock options, fair value is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, the expected dividends on it, and the risk-free interest rate over the expected life of the option.

**Research and Development Costs**

Research and development costs are charged to statements of income as incurred net of grants from the Israel Innovation Authority, or IIA, (formerly known as the Israel Office of the Chief Scientist of the Ministry of Economy).

**Loss per Share**

Basic net earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year.

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**Long-Lived Assets and Intangible assets**

Intangible assets that are not considered to have an indefinite useful life are amortized using the straight-line basis over their estimated useful lives. The Company evaluates property and equipment and purchased intangible assets with finite lives for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Company assesses the recoverability of the assets based on the undiscounted future cash flow and recognizes an impairment loss when the estimated undiscounted future cash flow expected to result from the use of the asset plus the net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When the Company identifies an impairment, it reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. During the years ended December 31, 2017 and 2016, no indicators of impairment have been identified.

**Goodwill**

The Company performed goodwill impairment tests until 2016. The goodwill impairment test is conducted in two steps. In the first step, the Company determines the fair value of the reporting unit using expected future discounted cash flows and estimated terminal values. If the net book value of the reporting unit exceeds the fair value, the Company would then perform the second step of the impairment test, which requires allocation of the reporting unit's fair value of all its assets and liabilities in a manner similar to acquisition cost allocation, with any residual fair value being allocated to goodwill. The implied fair value of the goodwill is then compared to the carrying value to determine impairment, if any.

Starting in 2017, the Company determines the fair value of the reporting unit using the income approach, which utilizes a discounted cash flow model, as the Company believes that this approach best approximates the unit’s fair value at this time. The Company has corroborated the fair values using the market approach. Judgments and assumptions related to revenue, gross profit, operating expenses, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. Additionally, the Company evaluated the reasonableness of the estimated fair value of its reporting unit by reconciling its market capitalization. This reconciliation allowed the Company to consider market expectations in corroborating the reasonableness of the fair value of the reporting unit. Following such reconciliation, the Company found that there was a material difference (approximately 54%) between the fair value of the reporting unit and its market capitalization as of December 31, 2017.

The Company has one operating segment and one operating unit related to its overall MRM. Until 2017, step one of the assessment resulted in the carrying value of the MRM reporting unit exceeding its fair value. As described in the preceding paragraphs, the second step was performed by allocating the reporting unit's fair value to all of its assets and liabilities, with any residual fair value being allocated to goodwill. There were no impairments recorded until 2017.

**Revenue recognition**

Revenues from the sales of MRM products are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee payable by the customer is fixed and determinable; and collection of the resulting receivable is reasonably assured. The title and risk of loss passes to the customer, delivery has occurred and acceptance is satisfied once the product leaves the Company’s premises.

**Comprehensive Income (Loss)**

Financial Accounting Standards Board , or FASB, Accounting Standards Codification , or ASC, Topic 220-10, “Reporting Comprehensive Income,” requires the Company to report in its consolidated financial statements, in addition to its net income, comprehensive income (loss), which includes all changes in equity during a period from non-owner sources including, as applicable, foreign currency items, and other items.

The Company’s other comprehensive income for all periods presented is related to the translation from functional currency to the presentation currency.

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**Income Taxes**

Deferred taxes are determined utilizing the “asset and liability” method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, when it’s more likely than not that deferred tax assets will not be realized in the foreseeable future.

The Company applied FASB ASC Topic 740-10-25, “Income Taxes,” which provides guidance for recognizing and measuring uncertain tax positions and prescribes a threshold condition that a tax position must meet for any of the benefits of the uncertain tax position to be recognized in the financial statements. It also provides accounting guidance on derecognizing, classification and disclosure of these uncertain tax positions. The Company’s policy on classification of all interest and penalties related to unrecognized income tax positions, if any, is to present them as a component of income tax expense.

**Financial Instruments**

1. Concentration of credit risks:

Financial instruments that have the potential to expose the Company to credit risks are mainly cash and cash equivalents, bank deposit accounts, marketable securities and trade receivables.

The Company holds cash and cash equivalents, securities and deposit accounts at large banks in Israel, thereby substantially reducing the risk of loss.

With respect to trade receivables, the risk is limited due to the geographic spreading, nature and size of the entities that constitute the Company’s customer base. The Company assesses the financial position of its customers prior to the engagement with them.

The Company performs ongoing credit evaluations of its customers for the purpose of determining the appropriate allowance for doubtful accounts and generally does not require collateral. An appropriate allowance for doubtful accounts is included in the accounts.

Fair value measurement:

2. The Company measures fair value and discloses fair value measurements for financial and non-financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standard establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**Financial Instruments**(Cont.)

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in its assessment of fair value.

**Recent Accounting Pronouncements**

In July 2017, the FASB issued Accounting Standards Update, or ASU, No. 2017-11. The amendments in part I of the ASU change the classification analysis of certain equity-linked financial instruments (or embedded derivatives) with down round features. When determining the classification of an instrument as a liability or as equity, entities will be required to disregard down round features upon the assessment of whether the instrument is indexed to the entity’s own stock. Entities that provide earnings per share, or EPS, data will adjust their basic EPS calculation for the effect of the feature when it is triggered (i.e. upon the occurrence of an event that results in the reduction of the strike price of the related equity-linked financial instrument), and will recognize the effect of the feature within equity. Part II of this guidance replaces the indefinite deferral of certain provisions of ASC Topic 480, distinguishing liabilities from equity, mandatorily redeemable non-controlling interests and mandatorily redeemable financial instruments of non-public entities with a scope exception.

The amendments in part I of the ASU should be applied either retrospectively to outstanding financial instruments with a down round feature by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective or retrospectively for each prior reporting period presented. These amendments are effective for reporting periods (interim and annual) beginning after December 15, 2018, with early adoption permitted. The Company is currently assessing the potential impact of this ASU on its consolidated financial statements.

In May 2017, the FASB issued (ASU) No. 2017-09, which clarifies when an entity should account for a change to the terms or conditions of a share-based payment award as a modification. Under the ASU, modification accounting is required if the fair value, vesting conditions or classification of the award changes because of the change in terms or conditions. The amendments in this update will be applied prospectively to an award modified on or after the effective date. The amendments are effective for reporting periods (interim and annual) beginning after December 15, 2017.

In January 2017, the FASB issued ASU No. 2017-04, which eliminates Step 2 from the goodwill impairment test. The goodwill impairment test will be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. The amendments should be applied on a prospective basis. For public business entities that are SEC file with the Securities and Exchange Commission, or the SEC, the amendments are effective for annual or any interim impairment tests in reporting periods beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently assessing the potential impact of this ASU on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company does not expect that this ASU will have any material impact on its revenues.

**NOTE 3 — FAIR VALUE MEASUREMENTS**

Items carried at fair value as of December 31, 2017 and 2016 are classified in the table below in one of the three categories described in Note 2.

| | Fair value measurements using input type December 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | $2,114 | - | - | 2,114 |
| Restricted cash | 284 | - | - | 284 |
| Derivative liability | - | 3 | - | 3 |
| Derivative liability- phantom option | - | (11) | - | (11) |
| | $2,398 | (8) | - | 2,390 |

| | Fair value measurements using input type December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | $539 | - | - | 539 |
| Restricted cash | 594 | - | - | 594 |
| Marketable securities | 2,978 | - | - | 2,978 |
| Derivative liability | - | (9) | - | (9) |
| Derivative liability- phantom option | - | (4) | - | (4) |
| | $4,111 | (13) | - | 4,098 |

**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:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Raw materials | $3,189 | $3,635 |
| Work in process and finished product | 1,790 | 655 |
| | $4,979 | $4,290 |

**NOTE 5 — PROPERTY AND EQUIPMENT, NET**

Property and equipment consists of the following as of December 31, 2017 and 2016:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Leasehold improvements | $287 | $287 |
| Machinery and equipment | 1,696 | 1,874 |
| Furniture and fixtures | 21 | 6 |
| Transportation equipment | 67 | 61 |
| Computer equipment | 906 | 719 |
| | 2,977 | 2,947 |
| Less accumulated depreciation | (2,067) | (1,982) |
| | $910 | $965 |

Depreciation expenses totaled $344 and $342, for the years ended December 31, 2017 and 2016, respectively.

**NOTE 6 — INTANGIBLE ASSETS AND OTHERS, NET**

**Composition:**

| | Useful life years | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Original amount: | | | |
| Technology | 5 | $2,010 | $2,010 |
| Customer related intangible assets | 3-5 | 3,470 | 3,470 |
| | | $5,480 | $5,480 |
| Accumulated amortization: | | | |
| Technology | 5 | $1,534 | $1,154 |
| Customer related intangible assets | 3-5 | 2,747 | 2,237 |
| | 5 | $4,281 | $3,391 |
| | | $1,199 | $2,089 |
| Prepaid lease expenses | | 295 | 205 |
| | | $1,494 | $2,294 |

The estimated future amortization of the intangible assets (excluded deferred tax assets and prepaid lease) as of December 31, 2017 is as follows:

| | |
|---|---|
| 2018 | 846 |
| 2019 | 353 |
| | $1,199 |

**NOTE 7 - SHORT-TERM BANK LOANS**:

**Composition:**

| | Interest rate as of December 31, 2017 % | Linkage basis | Total short-term liabilities December 31, 2017 | Total short-term liabilities December 31, 2016 |
|---|---|---|---|---|
| Due to banks | | NIS | $951 | $3,101 |

| | | | |
|---|---|---|---|
| | Prime plus 1.7% | | |
| | Prime plus 2.45% | | |
| Current portion | | 631 | 579 |
| | | $1,582 | $3,680 |

As of December 31, 2017, the Company had short-term bank credit of $1,582 comprised as follows: $631 current portion of long-term loans and $346 of short-term bank loans that bear interest of prime plus 1.7% through prime plus 2.45% paid either on a monthly or weekly basis.

Enertec Electronics Ltd., or Enertec Electronics, one of our subsidiaries, had not met all of its bank covenants as of December 31, 2017. As a result, the Company reclassified $605 from long-term loans to short-term loans. See also note 15.

As of December 31, 2016, the Company had short-term bank credit of $3,680 comprised as follows: $579 current portion of long-term loans and $3,101 of short-term bank loans that bear interest of prime plus 1.2% through prime plus 2.45% paid either on a monthly or weekly basis.

The restricted cash in the balance sheets stands as collateral in favor of the loans.

**NOTE 8 — LONG-TERM LOANS FROM BANKS**

**1. Composition:**

| | Interest rate as of December 31, | | **Total long-term liabilities, net of current portion** | |
|---|---|---|---|---|
| | 2017 | Linkage | December 31, | |
| | % | basis | 2017 | 2016 |
| Due to banks | Prime plus 1.25%- Prime plus 2.45% | NIS | $631 | $1,672 |
| Less– current portion | | | (631) | (579) |
| | | | $- | $1,093 |

**2. Long-term loans from banks are due as follows:**

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| First year (current portion) | $631 | $579 |
| Second year | - | 546 |
| Third year | - | 547 |
| Fourth year and thereafter | - | |
| | $631 | $1,672 |

The Company has committed to certain covenants under its bank loans. See also note 15.

**NOTE 9 — LOAN FROM OTHERS**

On each of June 30, October 28, and December 22, 2016, the Company and its wholly-owned subsidiary, Enertec Electronics Ltd., entered into separate Note Purchase Agreement with YA II PN Ltd., or YA II, a Cayman Island exempt limited partnership and affiliate of Yorkville Advisors Global, LLC, whereby YA II purchased $600, $500 and $1,000 of notes from the Company. The outstanding principal balance of the notes bears interest at 7% per annum.

Upon the occurrence of an Event of Default (as defined in the notes), all amounts payable may be due immediately. In connection with the Note Purchase Agreements, the Company granted to YA II a five-year warrant to purchase 252,000 shares of the Company's common stock at an exercise price of $3.00 per share.

On June 8, 2017, the Company entered into another Note Purchase Agreement with YA II whereby YA II agreed to lend the Company $600 pursuant to an additional secured promissory note. The outstanding principal balance of the additional note bears interest at 7% per annum. The additional note matures on December 31, 2018. The Company shall make payments of $100 on September 30, 2018 and $500 on December 31, 2018.

Pursuant to the June 8, 2017 Note Purchase Agreement, the Company and YA II agreed to amend the terms of the promissory notes issued by the Company to YA II dated June 30, 2016, or the June 2016 Note, October 28, 2016, or the October 2016 Note, and December 22, 2016, or the December 2016 Note, respectively.

The June 2016 Note was amended to (i) extend the maturity date to December 31, 2017 and (ii) amend the repayment schedule owed under such note such that $150 shall be payable by the Company on each of October 10, 2016, May 1, 2017, September 30, 2017 and December 31, 2017. The Company made the required payment by December 31, 2017.

The October 2016 Note was amended to (i) extend the maturity date to March 31, 2018 and (ii) amend the repayment schedule such that on May 1, 2017, September 30, 2017, December 31,2017 and March 31, 2018 the Company shall make payments of $150, $100, $150 and $100, respectively. The payment of December, 31, 2017 was paid on January, 18, 2018.

**NOTE 9 — LOAN FROM OTHERS (CONT.)**

The December 2016 Note was amended to (i) extend the maturity date to September 30, 2018 and (ii) amend the repayment schedule such that on March 31, 2018, June 30, 2018 and September 30, 2018 the Company shall make payments of $300, $400 and $300, respectively.

In addition, the Company agreed to amend the exercise price of the 252,000 warrants to purchase shares of common stock of the Company, which were granted in connection with the June 30, 2016, October 28, 2016 and December 22, 2016 Note Purchase Agreements, to $2.00 per share.

The Company evaluated the modifications to the terms of the loans in accordance with the guidance in ASC Topic 470-50-40 regarding de-recognition of debt, and concluded that the new loans are not substantially different from the original loans. Therefore, these modifications were not accounted for as extinguishment of the existing debt.

On August 22, 2017, the Company and Enertec Electronics Ltd. executed the Third Supplemental Agreement which supplements the Note Purchase Agreement executed by the parties on October 28, 2016. Pursuant to the Third Supplemental Agreement, we borrowed $1,500 from YA II pursuant to the terms of a secured promissory note. The outstanding principal balance of the note shall bear interest at 7% per annum. The note was to mature on November 22, 2017. On November 19, 2017, we and YA II amended the maturity date of the August 2017 Note to February 15, 2018 and provided that we may extend such maturity date to January 15, 2019 at its sole discretion. In the event we elect to utilize such extension, we have agreed to (i) pay an aggregate of $200 of principal plus all accrued and unpaid interest under the note on March 31, 2018, (ii) pay an aggregate of $200 of principal plus all accrued and unpaid interest under the note on June 30, 2018, (iii) pay an extension fee of $50 and (iv) issue YA II a five-year warrant to purchase 158,000 shares of our common stock at an exercise price of $1.50 per share. The warrant also provides for demand and piggyback registration rights (see Note 18).

The Company evaluated the modifications to the terms of the loans in accordance with the guidance in ASC Topic 470-50-40 regarding de-recognition of debt, and concluded that the new loans are not substantially different from the original loans. Therefore, these modifications were not accounted for as extinguishment of the existing debt.

## NOTE 10 — ACCRUED SEVERANCE PAY, NET

### A. Accrued Liability:

The Company is liable for severance pay to its employees pursuant to the applicable local laws prevailing in the respective countries of employment and employment agreements. For Israeli employees, the liability is partially covered by individual managers' insurance policies under the name of the employee, for which the Company makes monthly payments. The Company may make withdrawals from the managers' insurance policies only for the purpose of paying severance pay.

The amounts accrued and the amounts funded with managers' insurance policies are as follows:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Accrued severance pay | $249 | $154 |
| Less - amount funded | (116) | (96) |
| | $133 | $58 |

## NOTE 11 — PROVISION (BENEFIT) FOR INCOME TAXES

### A. Basis of Taxation

**United States:**

The U.S. corporate tax rate was 35% in 2017 and 35% in 2016.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Act") was enacted, which significantly changed U.S. tax law. The Act lowered the tax rate of the Company. The statutory federal income tax rate was reduced from 35% in 2017 to 21% in 2018.

**Israel:**

The Company's Israeli subsidiaries are governed by the tax laws of the state of Israel which had a general tax rate of 24% in 2017 and 25% in 2016. The Company is entitled to various tax benefits in Israel by virtue of being granted the status of an "Approved Enterprise Industrial Company" as defined by the tax regulations. The benefits include, among other things, a reduced tax rate.

In December 2010, legislation amending the Law for Encouragement of Capital Investments of 1959 (the "Investment Law"), was adopted. This new legislation became effective as of January 1, 2011 and applies to preferred income produced or generated by a preferred company from the effective date. Under this legislation, a uniform corporate tax rate applies to all qualifying income of certain Industrial Companies, or Preferred Enterprise (as defined under the Investment Law), as opposed to the previous law's incentives, which were limited to income from Approved Enterprises and Privileged Enterprises during their benefits period. Under the legislation, the uniform tax rates are as follows: 2011 and 2012 - 15% (10% in preferred area), 2013 and 2014 - 12.5% (7% in preferred area) and in 2015 - 12% (6% in preferred area).

Effective beginning in 2014, the regular Israeli tax rate was 26.5% for Regular Entities and 16% or 9% for Preferred Enterprises (depending on the location of industry). Micronet is eligible for the tax rate for Preferred Enterprises. In 2016 and 2017, Micronet was taxed at the 16% rate.

In December 2016, the Israeli government published the Economic Efficiency Law (2016) (legislative amendments to accomplish budget goals for the years 2017 and 2018). According to such law, in 2017 the general tax rate will decrease by 1% and starting 2018 will decrease by 2%; so that the tax rate was 24% in 2017 and will be 23% in 2018 and onwards. In addition, the tax rate that applies to Preferred Enterprises in preferred area will be decreased by 1.5% to 7.5% starting January 1, 2017.

**NOTE 11 — PROVISION (BENEFIT) FOR INCOME TAXES (CONT.)**

**B. Provision for Taxes**

| | Year ended December 31, 2017 | 2016 |
|---|---|---|
| Current: | | |
| Domestic | $(1 ) | $(6 ) |
| Foreign (Israel) | 22 | (33) |
| | 21 | (39) |
| | | |
| Taxes related to prior years | (31) | (6 ) |
| | | |
| Deferred: | | |
| Deferred taxes, net | - | - |
| Total provision for income taxes | $(10) | $(45) |

**C. The reconciliation of income tax at the U.S. statutory rate to the Company's effective tax rate as follows:**

| | 2017 | 2016 |
|---|---|---|
| U.S. federal statutory rate | 35 % | 35 % |
| Tax rate difference between U.S. and Israel | (11 )% | (10 )% |
| Effect of Israeli tax rate benefit | (8 )% | (9 )% |
| Effect of previous years | - % | - % |
| Change in valuation allowance | (9 )% | (7 )% |
| Others | (7 )% | (9 )% |
| Effective tax rate | 0.0 % | 0.0 % |

**D. Deferred Tax Assets and Liabilities**

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2017 and 2016, the Company's deferred taxes were in respect of the following:

| | December 31, 2017 | 2016 |
|---|---|---|

| | | |
|---|---|---|
| Net operating loss carry forward | $1,814 | $1,722 |
| Provisions for employee rights and other temporary differences | 542 | 490 |
| Deferred tax assets before valuation allowance | 2,356 | 2,212 |
| Valuation allowance | (1,814) | (1,722) |
| Deferred tax assets | 542 | 490 |
| Deferred tax liability | - | 7 |
| Deferred tax assets, net | $542 | $483 |

**NOTE 11 — PROVISION (BENEFIT) FOR INCOME TAXES (CONT.)**

**Tax losses**

**E.** As of December 31, 2017, the Company has a net operating loss carry forward of approximately $5,184, which may be utilized to offset future taxable income for United States federal tax purposes. This net operating loss carry forward begins to expire in 2022. Since it is more likely than not that the Company will not realize a benefit from this net operating loss carry forward, a 100% valuation allowance has been recorded to reduce the deferred tax asset to its net realizable value.

**Tax Assessments**

**F.**

The Company received final tax assessments in the United States through tax year 2012, and with regard to the Israeli subsidiaries received final tax assessments up until tax year 2012.

**Uncertain Tax Position**

**G.**

The Company did not record any liability for income taxes associated with unrecognized tax benefits during 2017 and 2016.

**NOTE 12 — RELATED PARTIES**

In November 2012, entities controlled by Mr. Lucatz reached agreements with each of Micronet and the Company for the provision of management and consulting services to Micronet and the Company, respectively.

On November 7, 2012, the board of directors and the audit committee of Micronet approved the entry into a management and consulting services agreement with D.L. Capital Ltd., an entity controlled by Mr. Lucatz, pursuant to which effective November 1, 2012, Mr. Lucatz agreed to devote 60% of his time to Micronet matters for the three year term of the agreement and Micronet agreed to pay the entities controlled by Mr. Lucatz management fees of 65 NIS (approximately $16) on a monthly basis, and cover other monthly expenses. Such agreement was further subject to the approval of Micronet’s shareholders, which was obtained at a special meeting held on January 30, 2013 for that purpose and went into effect following its execution on February 8, 2013. In July 2017, the scope of the consulting services pursuant to the agreement with D.L. Capital Ltd. was amended to reduce the requirement of the time Mr. Lucatz is to devote to Company matters to 22%, with the monthly fee proportionally reduced accordingly.

On November 26, 2012, D.L. Capital Ltd. entered into a management and consulting services agreement with the Company, effective November 1, 2012, which provides that we will pay the entities controlled by Mr. Lucatz: (i) management fees of $13 on a monthly basis, and cover other monthly expenses, (ii) an annual bonus of 3% of the amount by which the annual EBITDA for such year exceeds the average annual EBITDA for 2011 and 2010, and (iii) a bonus of 0.5% of the purchase price of any acquisition or capital raising transaction, excluding the public offering contemplated at such time, completed by us during the term of the agreement.

**Transactions with related parties**

| | **Year ended December 31,** | |
|---|---|---|
| | 2017 | 2016 |
| Consulting fee paid to controlling shareholder | $331 | $386 |
| Stock based compensation granted to controlling shareholder | | 89 |
| Total | 331 | 475 |

**NOTE 13 — SHAREHOLDER'S EQUITY**

A. Common stock:

Common Stock confers upon its holders the rights to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends if declared.

B. Stock Option Plan:

Pursuant to our 2012 Stock Incentive Plan as amended and approved at the Company's Annual Meeting of Shareholders in November 2017, the board of directors is authorized to award stock options to purchase shares of Common Stock to our officers, directors, employees and certain others, up to a total of 3,000,000 shares of Common Stock, subject to adjustments in the event of a stock split, stock dividend, recapitalization or similar capital change. Stock based compensation amounted to $25 and $268 for the years ended December 31, 2017 and 2016, respectively.

The exercise price of the options granted under the 2012 Stock Incentive Plan is set by the board of directors and will not be less than the closing sale price on Nasdaq at the grant date. As of December 31, 2017, 2,529,000 stock options remain available for future awards under the 2012 Stock Incentive Plan. Under the 2012 Stock Incentive Plan, unless determined otherwise by the board, options generally vest over a two or three year period from the date of grant and expire 10 years after the grant date. Unvested options are forfeited 90 days following the termination of employment. Any options that are forfeited before expiration become available for future grants.

On July 17, 2014 the Company adopted the 2014 Stock Incentive Plan pursuant to which the board of directors is authorized to issue stock options, restricted stock and other awards to officers, directors, employees, consultants and other service providers. The board of directors initially reserved 100,000 shares of the Company's Common Stock for issuance pursuant to awards that may be made pursuant to the 2014 Stock Incentive Plan. The 2014 Stock Incentive Plan was amended in November 2017 and the number of shares of the Company's Common Stock reserved for issuance under the plan was increased to 200,000 shares. The 2014 Stock Incentive Plan was approved by the stockholders on September 30, 2014 and the amendment to the 2014 Stock Incentive Plan was approved by the stockholders on November 15, 2017. As of December 31, 2017, 52,525 stock options remain available for future awards under the 2014 Stock Incentive Plan.

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2017:

| Options Outstanding | | Options Exercisable | |
|---|---|---|---|
| **Number Outstanding on December 31, 2017** | **Weighted Average Remaining Contractual Life** | **Number Exercisable on December 31, 2017** | **Exercise Price** |
| | **Years** | | **$** |
| 15,000 | 5.5 | 15,000 | 4.30 |
| 421,000 | 7 | 421,000 | 4.30 |
| 100,000 | 9 | 25,000 | 4.30 |
| 536,000 | | 461,000 | |

**NOTE 13 — SHAREHOLDER'S EQUITY (CONT.)**

B. Stock Option Plan- (continued):

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ |
| Options outstanding at the beginning of year: | 746,000 | 4.30 | 746,000 | 4.30 |
| Changes during the year: | | | | |
| Granted | 100,000 | 4.30 | - | 4.30 |
| Exercised | - | - | - | - |
| Forfeited | (310,000) | 4.30 | - | - |
| Options outstanding at end of year | 536,000 | 4.30 | 746,000 | 4.30 |
| Options exercisable at year-end | 461,000 | 4.30 | 646,000 | 4.30 |

The fair value of each option granted is estimated on the date of grant, using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0% for all years; expected volatility: 2017 – 30%; risk-free interest rate: 2017 – 0.13%; and expected life: 2017- 1.5 years.

The Company is required to assume a dividend yield as an input in the Black-Scholes model. The dividend yield assumption is based on the Company's historical experience and expectation of future dividends payouts and may be subject to change in the future.

The Company uses historical volatility in accordance with FASB ASC Topic 718, "Compensation - stock compensation". The computation of volatility uses historical volatility derived from the Company's exchange-traded shares.

The risk-free interest assumption is the implied yield currently available on U.S. Treasury zero-coupon bonds, issued with a remaining term equal to the expected life term of the Company's options.

Pre-vesting rates forfeitures were zero based on pre-vesting forfeiture experience.

The Company uses the simplified method to compute the expected option term for options granted.

C. Stock Option Plan of Subsidiary

During 2017, the board of the directors of Micronet Ltd. approved the grant of 2,130,000 options of Micronet Ltd. to certain officers with exercise prices of between NIS 1.67 to NIS 2.11. The fair value of those three grants amounted to $421.

The total expenses of the options recorded in 2017 amounted to $ 150.

D. Issuance of common stock:

In April 2013, the Company closed an underwritten public offering of 1,863,000 shares of Common Stock, and warrants to purchase 931,500 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 warrants include only standard anti-dilution provisions. 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 as equity according to the appropriate accounting guidance.

**NOTE 13 — SHAREHOLDER'S EQUITY (CONT.)**

D. SEDA- Standby Equity Distribution Agreement

On August 22, 2017, the Company entered into a Standby Equity Distribution Agreement, or the 2017 SEDA with YA II for the sale of up to $10,000 of shares of the Company's common stock over a three-year commitment period. Under the terms of the 2017 SEDA, the Company may from time to time, in its discretion, sell newly-issued shares of its common stock to YA II at a discount to market of 1.5%. The Company and YA II previously entered into a prior Standby Equity Distribution Agreement on June 30, 2016, or the 2016 SEDA, for the sale of up to $2,390 of shares of the Company's common stock over a three year period.

The Company is not obligated to utilize any of the $10,000 available under the 2017 SEDA and there are no minimum commitments or minimum use penalties. The total amount of funds that ultimately can be raised under the 2017 SEDA over the three year term will depend on the market price for the Company's common stock and the number of shares actually sold. YA II is obligated under the 2017 SEDA to purchase shares of the Company's common stock from the Company subject to certain conditions including, but not limited to the Company filing a registration statement with the SEC, to register the resale by YA II of shares of common stock sold to YA II under the 2017 SEDA, or the Registration Statement, and the SEC declaring such Registration Statement effective.

The 2017 SEDA does not impose any restrictions on the Company's operating activities. During the term of the 2017 SEDA, YA II is prohibited from engaging in any short selling or hedging transactions related to the Company's common stock.

In connection with the 2017 SEDA, the Company agreed to pay YA Global II SPV, LLC, a wholly owned subsidiary of YA II, a commitment fee in the amount of $800, or the Commitment Fee, in the aggregate, which was to be paid in eight quarterly installments of $100, with the first installment due and payable on the fifth trading day following the execution of the SEDA. The Commitment Fee may be paid in cash or shares of the Company's common stock. We paid YA II $50 out of the first installment of the Commitment Fee.

On November 19, 2017, we entered into an agreement with YA II whereby the commitment fee repayment terms were amended such that (i) $200 of the commitment fee shall be payable as follows: $50 shall be due and payable on March 31, 2018, $50 shall be due and payable on September 30, 2018, $50 shall be due and payable on March 31, 2019, and $50 shall be due and payable on September 30, 2019, and (ii) we shall pay the remaining $600 as follows: $90 shall be paid when the aggregate advance amounts under the 2017 SEDA shall total $3,000, $30 shall be paid when the aggregate advance amounts under the 2017 SEDA shall total $4,000, $30 shall be paid when the aggregate advance amounts under the 2017 SEDA shall total $5,000, $150 shall be paid when the aggregate advance amounts under the

2017 SEDA shall total $6,000, $50 shall be paid when the aggregate advance amounts under the 2017 SEDA shall total $7,000, $130 shall be paid when the aggregate advance amounts under the 2017 SEDA shall total $8,000, $60 shall be paid when the aggregate advance amounts under the 2017 SEDA shall total $9,000 and $60 shall be paid when the aggregate advance amounts under the 2017 SEDA shall total $10,000.

On November 22, 2017, Company entered into a Securities Purchase Agreement, or the Purchase Agreement, with one investor, an affiliate of YA II, for the sale of 555,556 shares of the Company's common stock at a purchase price per share of $0.90 per share in a registered direct offering for total gross proceeds of $500. The Shares were offered and sold by the Company pursuant to the Company's shelf registration statement on Form S-3 (File No. 333-219596). The net proceeds to the Company from the offering, after deducting fees and expenses, were $495,000. The Company intends to use the net proceeds of the offering to pay $25 towards the remaining balance of a commitment fee pursuant to the Third Supplemental Agreement between the Company and YA II, $150,000 towards the repayment of principal and interest to the June 2016 Note issued to YA II and the remaining balance for working capital and general corporate purposes.

**NOTE 13 — SHAREHOLDER'S EQUITY (CONT.)**

E.

**NOTE 14 — SEGMENT REPORTING**

The Company accounts for its segment information in accordance with the provisions of ASC Topic 280-10, "Segment Reporting," or ASC 280-10. ASC 280-10 establishes annual and interim reporting standards for operating segments of a company. ASC 280-10 requires disclosures of selected segment-related financial information about products, major customers, and geographic areas based on the Company's internal accounting methods.

1. Geographic Areas Information:

Sales: Classified by Geographic Areas:

The following presents total revenue for the years ended December 31, 2017 and 2016 by geographic area:

| | Year ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| United States | $14,256 | $9,867 |
| Israel | 233 | 181 |
| Other | 3,877 | 3,236 |
| Total | $18,366 | $13,284 |

2. Principal Customers:

There were two customers that represented 30% and 20% of the Company's total revenue in 2017. There were two customers that represented 23% and 20% of the Company's total revenue in 2016.

**NOTE 15 — COMMITMENTS AND CONTINGENCIES**

***Lease commitments-***

Micronet's short-term lease expires in June 2019. Accrual rent fee is approximately $144 per year including a property management fee. Micronet Inc.'s additional lease expires in November 2021. Accrual rent fee is approximately $168 per year.

At December 31, 2017, total minimum cars and lease rentals under non-cancelable operating leases with an initial or remaining lease term of one year or more are as follows:

| Year Ending December 31, | Amount |
|---|---|
| 2018 | $ 472 |
| 2019 | 358 |
| 2020 | 264 |
| 2021 | $ 171 |

***Legal proceedings***

We are not subject to any pending or threatened legal proceedings, nor is our property the subject of a pending or threatened legal proceeding. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

***Unasserted Claims***

On March 30, 2017, Micronet received a notice from a client, or the Client, relating to tests performed by the Client which, in the Client's opinion, revealed a defect in the materials included in a battery integrated into a certain product sold by Micronet to the Client. The Client reported the issue to the United States National Highway Traffic Safety Administration, or the Regulator, in a form of a complaint. According to the information provided to Micronet by the Client, the complaint allegedly relates to an older product produced by Micronet. Similar problems the Client suffered with respect to the product at issue were previously resolved under warranty, in the ordinary course of business, and included resolving the issue by changing the battery or conducting software updates.

In light of these events, Micronet performed independent tests to examine the Client's complaint (including addressing the issue with the battery manufacturer) and simultaneously addressed the issue with the Regulator, including filing its response to the complaint. Micronet does not believe the product in question contains a significant defect, as alleged by the Client, and has stated its position in its response to the Regulator. To date, Micronet has not yet received the Regulator's response to the Complaint.

At this time, the Company is unable to predict the outcome of the complaint, any potential actions or any other impact on the Company that may arise.

***Covenants***

Enertec Electronics has covenants under its bank loan mainly requiring separate financial statements equity of not less than 32.5% of total assets. Enertec Electronics has not met all of its bank covenants as of December 31, 2017. The restricted cash stands as collateral for the loan.

***Chief Scientist***

In April 2013, Micronet submitted to the IIA a request for financial support within a framework of a research and development program for a new product. In September 2013, a grant to Micronet in a total amount of NIS 5.5 million (approximately $1.5 million) was approved by the IIA. This grant was provided by the IIA for a period of one year (starting April 2013) at a level of 30% from the aforementioned amount. In addition, during 2014 Micronet received further confirmation for a grant from the IIA in the total amount of NIS 5.5 million (approximately $1.5 million). This grant was provided by the IIA for a period of one year (starting April 2014) at a level of 40% from the aforementioned amount. In addition, during 2015 Micronet received further confirmation for a grant from the IIA in the total amount of NIS 5.1 million (approximately $1.3 million) at a level of 40% from the aforementioned amount. Micronet is obligated to pay royalties to the IIA amounting to 3%-3.5% of the sales of the products and other related revenues generated from such projects linked to the dollar plus Libor interest rate. To date, Micronet has received an aggregate of NIS 5.6 million (approximately $1.4) from the IIA under these three grants.

**NOTE 16 — SUPPLEMENTARY FINANCIAL STATEMENTS INFORMATION**

**A. Other accounts receivable:**

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Prepaid expenses | $751 | $125 |
| Government departments and agencies | 277 | 65 |
| Others | 64 | 116 |
| | $1,092 | $306 |

**B. Other Accounts Payable:**

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Employees and wage-related liabilities | $650 | $526 |
| Revenue in advance | 1,532 | - |
| Accrued expenses | 720 | 585 |
| Other current liabilities | 244 | 139 |
| | $3,146 | $1,250 |

**C. Earnings (loss) per Share:**

Basic and diluted earnings (losses) per share were computed based on the average number of shares outstanding during each year.

The following table sets forth the computation of basic and diluted net earnings (losses) per share attributable to Micronet Enertec:

| | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| Numerator: | | |
| Amount for basic earnings per share | $(8,157) | $(5,807) |
| Effect of dilutive instruments | - | - |

| | | |
|---|---|---|
| Amount for diluted earnings per share | (8,157) | (5,807) |
| | | |
| Denominator: | | |
| Denominator for basic earnings per share - weighted average of shares | 7,128,655 | 5,966,662 |
| Loss per share attributable to Micronet Enertec:<br>Basic continued operation | $(0.45) | $(0.76) |
| Basic discontinued operation | $(0.69) | $(0.21) |

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**NOTE 17 — DISCONTINUED OPERATION**

On December 31, 2017, we, Enertec and our wholly owned subsidiary, Enertec Management Ltd., entered into a Share Purchase Agreement with Coolisys, a subsidiary of DPW, pursuant to which we agreed to sell the entire share capital of Enertec to Coolisys. As consideration for the sale of Enertec's entire share capital, Coolisys has agreed to pay at the closing of the transaction a purchase price of $5,250 million, as well as assume up to $4,000 of Enertec debt which consideration may be subject to certain adjustments set forth in the Share Purchase Agreement. Enertec met the definition of a component. Accordingly, its assets and liabilities were classified as held for sale and the results of operations in the statement of operations and prior periods results have been reclassified as discontinued operation accordingly.

In conjunction with, and as a condition to, the closing of the Share Purchase Agreement, the Company, Enertec, Coolisys, DPW and Mr. David Lucatz, the Company's Chief Executive Officer, agreed to execute a consulting agreement, or the Consulting Agreement, whereby the Company, via Mr. Lucatz, will provide Enertec with certain consulting and transitional services over a 3 year period as necessary and requested by the Coolisys (but in no event to exceed 20% of Mr. Lucatz's time). Coolisys (via Enertec) will pay the Company an annual consulting fee of $150 as well as issue the Company 150,000 restricted shares of DPW Class A common stock, or the DPW Equity, for such services, to be vested and released from restriction in three equal installments, with the initial installment vesting the day after the closing and the remaining installments vesting on each of the first 2 anniversaries of the closing. In the event of a change of control in the Company, or if Mr. Lucatz shall no longer be employed by the Company, the rights and obligations under the Consulting Agreement shall be assigned to Mr. Lucatz along with the DPW Equity.

The following is the composition from discontinued operation:

| | **December 31, 2017** | **December 31, 2016** |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 279 | $ 128 |
| Restricted cash | 4,224 | 3,895 |
| Trade accounts receivable, net | 4,807 | 8,499 |
| Inventories | 1,506 | 1,467 |
| Other accounts receivable | 66 | 13 |
| Total current assets | 10,882 | 14,002 |
| | | |
| Property and equipment, net | 676 | 676 |
| Long-term Assets | 98 | 203 |
| Total long-term assets | 774 | 879 |

| | | |
|---|---|---|
| Total assets | $ 11,656 | $ 14,881 |

| | **December 31, 2017** | **December 31, 2016** |
|---|---|---|
| LIABILITIES | | |
| Short-term bank credit | $ 8,863 | $ 6,312 |
| Short-term credit from others | - | 669 |
| Trade accounts payable | 1,380 | 1,898 |
| Other accounts payable | 957 | 1,131 |
| Total current liabilities | 11,200 | 10,010 |
| Accrued severance pay, net | 138 | - |
| Total Liabilities | $ 11,338 | $ 10,010 |

**NOTE 17 — DISCONTINUED OPERATION (Cont.)**

| | Year ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Revenues | $7,061 | $9,464 |
| Cost of revenues | 7,790 | 7,941 |
| Gross profit (loss) | (729) | 1,523 |
| Operating expenses: | | |
| Research and development | 672 | 518 |
| Selling and marketing | 546 | 588 |
| General and administrative | 2,200 | 1,400 |
| Total operating expenses | 3,418 | 2,506 |
| Loss from operations | (4,147) | (983) |
| Finance expense, net | 630 | 353 |
| Loss before provision for income taxes | (4,777) | (1,336) |
| Taxes on income (benefit) | 124 | (85) |
| Net Loss | (4,901) | (1,251) |

| | Year ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Net cash provided by (used in) operating activities | $(1,367) | $1,228 |
| Net cash provided by (used in) investing activities | 43 | (574) |
| Net cash provided by (used in) financing activities | 1,427 | (723) |
| NET CASH INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 103 | (69) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 128 | 210 |
| TRANSLATION ADJUSTMENT OF CASH AND CASH EQUIVALENTS | 48 | (13) |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $279 | $128 |

**NOTE 18 — SUBSEQUENT EVENTS**

1. On February 22, 2018, the Company entered into a Securities Purchase Agreement with D-Beta One EQ, Ltd., an existing stockholder and an affiliate of YA II, for the sale of 456,308 shares of our common stock at a purchase price per share of $1.05 per share in a registered direct offering for total gross proceeds of approximately $479. The shares were offered and sold pursuant to the Company’s shelf registration statement on Form S-3 (File No.

333-219596). The net proceeds to the Company from the offering, after deducting fees and expenses, were approximately $474.

2. In March, 2018, the Company elected to amend the August 2017 Note to the extend the maturity date of the note to January 15, 2019. Such extension was subject to the Company paying the extension fee of $50 on or before March 31, 2018 and issuing to YA II warrants to purchase up to 158,000 shares of common stock at an exercise price of $1.50 per share.

On March 29, 2018, the Company executed and closed on a securities purchase agreement with YA II, whereby the Company issued and sold to YA II (1) certain Series A Convertible Debentures in the aggregate principal aggregate amount of $3,200, or the Series A Debentures, and (2) a Series B Convertible Debenture in the principal aggregate amount of $1,800, or the Series B Debenture. The Series A Debentures were issued in exchange for the cancellation and retirement of certain secured promissory notes issued by the Company to YA II on October 28, 2016, December 22, 2016, June 8, 2017 and August 22, 2017, with a total outstanding aggregate principal amount of $3,200. The Series B Debenture was issued and sold for aggregate gross cash proceeds of $1,800.

3. Pursuant to the terms of the Series A Debentures, YA II may elect to convert the required payments due thereunder into the Company's common stock at a fixed conversion price of $2.00 per share. In addition, the Company may, at its sole discretion, convert a required payment at a conversion price equal to 98.5% of the lowest daily volume weighted average price of the Company's common stock during the ten consecutive trading days immediately preceding a conversion, provided that such price may not be less than $0.50.

Pursuant to the terms of the Series B Debenture, YA II may elect to convert the required payments due thereunder into the Company's common stock at a fixed conversion price of $4.00 per share. In addition, the Company may, at its sole discretion, convert a required payment at a conversion price equal to 98.5% of the lowest daily volume weighted average price during the ten consecutive trading days immediately preceding a conversion, provided that such price may not be less than $0.50.