

MICT, Inc.  
Form 10-Q  
November 19, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended: September 30, 2018**

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

COMMISSION FILE NUMBER 001-35850

**MICT, INC.**

(Exact Name of Registrant as Specified in its Charter)

Delaware                                      27-0016420  
(State or other jurisdiction of      (I.R.S. Employer  
incorporation or organization)    Identification No.)

28 West Grand Avenue, Suite 3, Montvale, NJ 07645

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(Address of principal executive offices) (Zip Code)

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

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

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

Large accelerated filer Accelerated filer  
Non-accelerated filer 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.

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

As of November 19, 2018, there were 9,342,115 issued and outstanding shares of the registrant's Common Stock, \$0.001 par value per share.

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****MICT, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED BALANCE SHEETS****(USD In Thousands, Except Share and Par Value Data)**

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	Unaudited	(Note 1)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,172	\$ 2,114
Restricted cash	365	284
Trade accounts receivable, net	2,945	5,183
Inventories	4,295	4,979
Other accounts receivable	594	1,092
Held for sale assets	-	11,656
Total current assets	10,371	25,308
Property and equipment, net	810	910
Intangible assets and others, net	868	1,494
Deferred tax assets	-	542
Long term deposit	731	12
Restricted cash- escrow	477	-
Goodwill	1,466	1,466
Total long term assets	4,352	4,424
Total assets	\$ 14,723	\$ 29,732

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

	September 30, 2018 Unaudited	December 31, 2017 (Note 1)
<b>LIABILITIES AND EQUITY</b>		
Short term bank credit and current portion of long term bank loans	\$ 2,225	\$ 1,582
Short term credit from others and current portion of long term loans from others	1,852	2,207
Trade accounts payable	1,712	3,973
Other accounts payable	1,329	3,146
Held for sale liabilities	-	11,338
Total current liabilities	7,118	22,246
Long term loans from bank	888	-
Long term loans from others	1,200	1,379
Accrued severance pay, net	130	133
Long term escrow	477	-
Total long term liabilities	2,695	1,512
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, 9,342,115 and 8,645,650 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively.	9	8
Additional paid in capital	11,866	10,881
Accumulated other comprehensive loss	(439 )	(363 )
Accumulated loss	(10,137 )	(10,147 )
MICT, Inc. stockholders' equity	1,299	379
Non-controlling interests	3,611	5,595
Total equity	4,910	5,974
Total liabilities and equity	\$ 14,723	\$ 29,732

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

	Nine months ended September 30,		Three months ended September 30,	
	2018	2017	2018	2017
Revenues	\$12,897	11,937	2,216	5,473
Cost of revenues	9,589	9,286	2,162	3,969
Gross profit	3,308	2,651	54	1,504
Operating expenses:				
Research and development	1,457	1,430	425	526
Selling and marketing	1,217	1,330	383	480
General and administrative	5,070	3,077	2,544	1,033
Amortization of intangible assets	652	737	214	267
Total operating expenses	8,396	6,574	3,566	2,306
Loss from operations	(5,088 )	(3,923 )	(3,512 )	(802 )
Financial expenses, net	956	177	104	134
Loss before provision for income taxes	(6,044 )	(4,100 )	(3,616 )	(936 )
Provision for income taxes	566	4	562	7
Net loss from continued operation	(6,610 )	(4,104 )	(4,178 )	(943 )
Net profit (loss) from discontinued operation (includes capital gain from disposal amounting to \$6,844)	4,894	(1,738 )	-	(609 )
Total net loss	(1,716 )	(5,842 )	(4,178 )	(1,552 )
Net loss attributable to non-controlling interests	(1,726 )	(1,604 )	(1,542 )	(257 )
Net profit (loss) attributable to MICT, Inc.	10	(4,238 )	(2,636 )	(1,295 )
Earnings (loss) per share attributable to MICT, Inc.				
Basic and diluted loss per share from continued operation	\$(0.54 )	(0.37 )	(0.28 )	(0.09 )
Basic and diluted earnings (loss) per share from discontinued operation	0.54	(0.26 )	-	(0.08 )
Weighted average common shares outstanding:	9,107,034	6,778,300	9,342,155	7,213,924

**MICT, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(USD In Thousands)**

**(Unaudited)**

	Nine months ended September 30, 2018		Three months ended September 30, 2017	
Net loss	\$(1,716)	(5,842)	(4,178)	(1,552)
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	(514 )	277	133	16
Total comprehensive loss	(2,230)	(5,565)	(4,045)	(1,536)
Comprehensive (loss) attributable to non-controlling interests	(1,984)	(1,035)	(1,431)	(216 )
Comprehensive income (loss) attributable to MICT, Inc.	\$(246 )	(4,530)	(2,614)	(1,320)



**MICT, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(USD In Thousands)****(Unaudited)**

	Nine months ended September 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net profit (loss) from continued operations	\$234	(4,104)
Adjustments to reconcile net income to net cash provided by operating activities:		
Capital gain from disposal	(6,844)	-
Depreciation and amortization	902	991
Change in fair value of derivatives, net	(11 )	(71 )
Change in deferred taxes, net	542	(46 )
Accrued interest and exchange rate differences on bank loans	(166 )	308
Extinguishment of loan costs and commissions	360	-
Accrued interest and exchange rate differences on loans from others	66	927
Stock-based compensation	707	112
Decrease (increase) in trade accounts receivable, net	2,238	(145 )
Decrease (increase) in inventories	610	(431 )
Increase (decrease) in accrued severance pay, net	(3 )	33
Increase in other accounts receivable	(221 )	(734 )
Increase (decrease) in trade accounts payable	(2,111)	1,628
Increase (decrease) in other accounts payable	(1,675)	1,005
Net cash used in operating activities	\$(5,372)	(527 )

**MICT, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(USD In Thousands)****(Unaudited)**

	Nine months ended September 30, 2018      2017	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Consideration from disposal of discontinued operation	4,295	-
Purchase of property and equipment	(188 )	(183 )
Marketable security	-	3,049
Net cash provided by investing activities	\$4,107	2,866
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Short term bank credit	\$1,696	(578 )
Receipt of long term bank loan	1,373	-
Repayment of bank loans, net	(1,342)	(2,165)
Extinguishment of loan costs	(360 )	-
Receipt of loans from others, net	4,971	-
Repayment of short term loans from others	(5,412)	-
Issuance of shares, net	479	1,319
Issuance of warrants net	28	103
Issuance of shares by subsidiary, net	-	2,474
Net cash provided by financing activities	\$1,433	1,153
<b>NET CASH INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>168</b>	<b>3,492</b>
Cash, Cash Equivalents and restricted cash at the beginning of the period	2,398	1,133
<b>TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS</b>	<b>(29 )</b>	<b>238</b>
Cash, Cash Equivalents and restricted cash at end of the period	\$2,537	4,863
<b>Supplemental disclosure of cash flow information:</b>		
<b>Amount paid during the period for:</b>		
Interest	\$763	7
Taxes	\$7	79

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(USD in thousands, except per share data)

### NOTE 1 — DESCRIPTION OF BUSINESS

#### *Overview*

MICT, Inc., or we, MICT, or the Company, 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. On July 13, 2018, following the sale of our former subsidiary Enertec Systems Ltd., the Company changed the Company name from Micronet Enertec Technologies, Inc. to MICT, Inc.

We operate primarily through our Israel-based company, Micronet Ltd., or Micronet, in which we have a controlling interest as of September 30, 2018.

On February 23, 2017, Micronet filed an immediate report with the Tel Aviv Stock Exchange, or 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 NIS 9,844,020. 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 the Company's benefit. As a result, the Company's voting interest of Micronet was increased to 50.07% of the issued and outstanding shares of Micronet.

Micronet is a publicly traded company on the TASE 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 portable tablets increase workforce productivity and enhance corporate efficiency by offering computing power and communication capabilities that provide fleet operators with visibility into vehicle location, fuel usage, speed and mileage. Micronet's customers consist primarily of application service providers and solution providers specializing in the MRM market.

As of September 30, 2018, the balance of Micronet's accumulated losses amounted to NIS 12,000,000. Micronet's results for the nine-month period ended September 30, 2018 and 2017 and for the year ended December 31, 2017 amounted to a loss of NIS 12,000,000 NIS 11,500,000 and NIS 13,000,000 respectively. These losses, and other factors may present Micronet with cash flow difficulties. In light of the above, Micronet anticipates that it will be required to provide additional financing sources during the coming year of activity due to an increase in cash flow needs, on the one hand, and utilization of most of the existing sources of financing on the other. The reason for the increase in cash needs is a significant drop in sales in the third quarter and a lower sales forecast than in previous years. Micronet estimates that the reason for the decline in the income forecast is due to a number of factors, including a decrease in the rate of sales of Micronet's customers to end customers, a delay in the launch of the new generation of products and a decrease in demand for the implementation of the second phase of the Electronic Logging Device mandate. These factors are expected to result in a cash flow deficit for Micronet.

On the other hand, in order to cope with the decline in the timing and volume of sales, Micronet intends to implement a process of increased efficiency, particularly in the area of production activity, increasing credit sources from banks and the realization of a real estate asset it owns. Micronet is also examining additional possibilities for raising capital in the public and private markets. In addition, it received a commitment from the Company and from D.L. Capital, a company owned by the Company's Chief Executive Officer, Mr. Lucatz, for financial support in the amount of up to \$400, in the absence of finding other sources of financing, as well as a letter of consent from Micronet's Chairman of the Board of Directors, Mr. Lucatz, as well as another director for postponement of payment of management fees as stated in Note 8. Based on Micronet's plans, Micronet's Board of Directors and management believe that Micronet will have sufficient resources to continue its operations in the normal course of business in the foreseeable future.

On December 31, 2017, the Company, Enertec Systems 2001 Ltd., or Enertec, previously our wholly owned subsidiary, and 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 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. Enertec met the definition of a component as defined by Accounting Standards Codification, or ASC, Topic 205, since Enertec 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 a discontinued operation. Enertec met the definition of a component. On May 22, 2018, the Company closed on the sale, or the Closing, of all of the outstanding equity of Enertec pursuant to the Share Purchase Agreement.

At the Closing, the Company received aggregate gross proceeds of approximately \$4,700, of which 10% will be held in escrow for up to 14 months after the Closing to satisfy certain potential indemnification claims. Therefore, the Company has recorded such escrowed amount on its balance sheet as restricted cash and a liability. The final consideration amount was adjusted, pursuant to the terms of the Share Purchase Agreement, as a result of adjustments relating to certain Enertec debts at the Closing. In addition, Coolisys also assumed approximately \$4,000 of Enertec's debt. The Company's capital gain from the sale of Enertec, based on the Company's balance sheet at the closing date was approximately \$6,800.

**NOTE 1 — DESCRIPTION OF BUSINESS (CONT.)**

As previously reported, and in conjunction with, and as a condition to, the Closing, the Company, Enertec, Coolisys, DPW and Mr. David Lucatz, the Company's Chief Executive Officer, executed 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 descriptions of the Share Purchase Agreement and Consulting Agreement are qualified in their entirety by reference to the complete text of the Share Purchase Agreement and Consulting Agreement which have been filed as Exhibits 10.1 and 10.2, respectively, to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 3, 2018.

The accompanying unaudited consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The balance sheet at December 31, 2017, has been derived from the Company's audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the U.S. Securities and Exchange Commission, or the SEC.

On July 2, 2018, the Company entered into a letter of intent, or the LOI, with respect to the following transactions, or the Transactions, contemplated to be entered into by and among the Company, BNN Technology PLC, a leading technology, content and services company, or BNN, and an unrelated third party that is a platform for transaction technology, or the Third Party:

BNN will seek to acquire, through a third-party cash tender offer at a price of at least \$1.65 per share, an additional approximately 35% stake in the Company (in addition to the 14.89% stake acquired on June 21, 2018), with a view to owning in aggregate at least 50.1% of the Company's issued shares.

Both BNN and the Third Party shall be acquired by the Company in exchange for cash and the issuance of securities. The Third Party acquisition is pursuant to a Heads of Terms, which BNN has previously entered into with the Third Party.

All of the shares of Micronet held by the Company will be spun off to the Company's shareholders that remain shareholders after the completion of the tender offer.

The Company will raise a minimum of between \$26,000 to \$36,000 from major global institutional investors.

The LOI is intended to express only a mutual indication of interest in the Transactions and does not represent a legally binding commitment or obligation on the part of the parties, and there can be no assurances that the Transactions will be consummated. As a result of the Transactions, it is contemplated that the Company will own BNN and the Third Party.

## **NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The accompanying consolidated financial statements are prepared in accordance with the 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 MICT 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 comprise the results and position of the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating

activities. In assessing control, legal and contractual rights, are taken into account. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control is achieved until the date that control is 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.

### **Revenue Recognition**

On January 1, 2018, the Company adopted Accounting Standards Codification, or ASC, Topic 606, “Revenue from Contracts with Customers,” or ASC 606, and all the related amendments (“new revenue standard”) with respect to all contracts using the modified retrospective method.

A contract with a customer exists only when: the parties to the contract have approved it and are committed to perform their respective obligations, the Company can identify each party’s rights regarding the distinct goods or services to be transferred (“performance obligations”), the Company can determine the transaction price for the goods or services to be transferred, the contract has commercial substance and it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Revenues are recorded in the amount of consideration to which the Company expects to be entitled in exchange for performance obligations upon transfer of control to the customer, excluding amounts collected on behalf of other third parties and sales taxes. The amount of consideration to which the Company expects to be entitled varies as a result of rebates, chargebacks, returns and other allowances.

The cumulative effect of initially applying the new revenue standard was immaterial for the nine months ended September 30, 2018, based on the adoption of ASC 606.

### **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 September 30, 2018, and December 31, 2017, the allowance for doubtful accounts amounted to \$1,326 and \$0, respectively.

### **Reclassifications**

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

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

**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 overhead 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:

	<b>Over the shorter of the lease term or the life of the assets</b>
<b>Leasehold improvements</b>	
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 vesting period, which is usually the service 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 (formerly known as the Israel Office of the Chief Scientist of the Ministry of Economy).

### **Earnings/Loss per Share**

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

### **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 three and nine months ended September 30, 2018, and the year ended December 31, 2017, no indicators of impairment have been identified.

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

**Goodwill**

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 one continued operation, consisting of the MRM business, and the entire goodwill was allocated to this MRM business. 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.

**Comprehensive Income (Loss)**

Financial Accounting Standards Board, or FASB, 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.

**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 is 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 geographical 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.

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

**Financial Instruments (Cont.)**

2. Fair value measurement:

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.

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 February 2016, the FASB issued Accounting Standards Update, or ASU, No. 2016-02, which supersedes the lease accounting guidance in ASC Topic 840, "Leases." The new guidance requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will

continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. The guidance is effective for reporting periods (interim and annual) beginning after December 15, 2018, for public companies, with early adoption permitted. The new guidance must be adopted using a modified retrospective approach.

The Company is currently assessing the potential impact of this ASU on its consolidated financial statements.

**NOTE 3 — FAIR VALUE MEASUREMENTS**

Items carried at fair value as of September 30, 2018, and December 31, 2017, are summarized below:

	Fair value measurements using input type September 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$2,172	-	-	2,172
Restricted cash	365	-	-	365
Derivative liability	-	(7 )	-	(7 )
Derivative liabilities - phantom option	-	-	-	-
Total	\$2,537	(7 )	-	2,530

	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 )
Total	\$2,398	\$(8 )	\$ -	\$2,390

**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:

	September 30, 2018	December 31, 2017
Raw materials	\$ 3,503	\$ 3,189
Work in process and finish goods	792	1,790
	\$ 4,295	\$ 4,979





**NOTE 5 — SEGMENTS**

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 nine months ended September 30, 2018, and 2017 by geographic area:

	Nine months ended September 30,	
	2018	2017
United States	\$9,960	9,463
Israel	20	249
Other	2,917	2,225
Total	\$12,897	11,937

**Note 6 — Loans from others**

On March 29, 2018, the Company and its subsidiary, MICT Telematics Ltd. (formerly known as Enertec Electronics Ltd.), or MICT Telematics, executed and closed on a securities purchase agreement with YA II PN Ltd, or YA II, whereby the Company issued and sold to YA II (1) certain Series A Convertible Debentures in the aggregate principal amount of \$3,200, or the Series A Debentures, and (2) a Series B Convertible Debenture in the principal amount of \$1,800, or the Series B Debenture. The Series A Debentures were issued in exchange for the cancellation and retirement of certain 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 \$3,200. The Series B Debenture was issued and sold for aggregate gross cash proceeds of \$1,800.

In addition, pursuant to the terms of the securities purchase agreement, the Company agreed to issue to YA II a warrant to purchase 375,000 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.

In conjunction with the issuance of the Series A Debentures and the Series B Debentures, a total of \$273,787 in fees and expenses were deducted from the aggregate gross proceeds.

The Company evaluated the modifications to the terms of the loans in accordance with the guidance in ASC Topic 470-50-40 "Derecognition," and concluded that the new debentures are substantially different from the original loans. Therefore, these modifications were accounted for as an extinguishment of the existing debt. As a result, the Company recorded an expense of \$360.

In addition, in June 2018, we made aggregate payments of \$875 towards the repayment of the Series A Debentures.

On July 3, 2018, the Company made a payment of \$1,000 towards the repayment of the Series A Debentures. In addition, on July 5, 2018, a payment of \$125,000 was made in shares of the Company's common stock at an applicable conversion price of \$1.1158 per share pursuant to the terms of the Series A Debentures.

**NOTE 7 — DISCONTINUED OPERATION**

On December 31, 2017, the Company, Enertec and Enertec Management Ltd. entered into the 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 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. Enertec met the definition of a component as defined by ASC Topic 205, since Enertec had been classified as held for sale and the Company believes the sale represented 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 a discontinued operation. On May 22, 2018, the Company closed on the sale of all of the outstanding equity of Enertec pursuant to the Share Purchase Agreement.

At the Closing, the Company received aggregate gross proceeds of approximately \$4,700 of which 10% will be held in escrow for up to 14 months after the Closing to satisfy certain potential indemnification claims. Therefore, the Company has recorded such escrowed amount on its balance sheet as restricted cash and a liability. The final consideration amount was adjusted, pursuant to the terms of the Share Purchase Agreement, as a result of adjustments relating to certain Enertec debts at the Closing. In addition, Coolisys also assumed approximately \$4,000 of Enertec's debt. The Company's capital gain from the sale of Enertec, based on the Company's balance sheet at the closing date is approximately \$6,800.

The following is the composition from discontinued operation through September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 279
Restricted cash	-	4,224
Trade accounts receivable, net	-	4,807
Inventories	-	1,506
Other accounts receivable	-	66
Total current assets	-	10,882
Property and equipment, net	-	676
Long-term Assets	-	98
Total long-term assets	-	774
Total assets	\$ -	\$ 11,656

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September 30, December 31,  
2018 2017

LIABILITIES

Short-term bank credit	\$ -	8,863
Trade accounts payable	-	1,380
Other accounts payable	-	957
Total current liabilities	-	11,200
Accrued severance pay, net	-	138
Total Liabilities	\$ -	\$ 11,338

**NOTE 7 — DISCONTINUED OPERATION (Cont.)**

	For the Period between January 1, January 1, 2018 to 2017 to May 22, September 30, 2018 2017		
Revenues	\$1,512	6,173	
Cost of revenues	2,655	5,733	
Gross profit (loss)	(1,143)	441	
Operating expenses:			
Research and development	120	380	
Selling and marketing	204	415	
General and administrative	376	794	
Total operating expenses	700	1,589	
Loss from operations	(1,843)	(1,148)	)
Capital gain	6,844	-	
Finance expense, net	(102	)	(477 )
Profit (loss) before provision for income taxes	4,899	(1,625)	)
Taxes on income	5	113	
Net profit (loss)	4,894	(1,738)	)
	For the Period between January 1, January 1, 2018 to 2017 to May 22, September 30, 2018 2017		
Net cash provided by (used in) operating activities	\$131	(1,665	)
Net cash used in investing activities	(39	)	(37 )
Net cash provided by (used in) financing activities	(63	)	1,797
NET CASH INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	29	95	
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF THE PERIOD	4,503	4,023	
TRANSLATION ADJUSTMENT OF CASH AND CASH EQUIVALENTS	(147	)	220
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF THE PERIOD	\$4,385	4,338	

**NOTE 8 — Subsequent Events**

On November 19, 2018, Micronet reached an agreement with its Chairman of the Board of Directors and the Company's Chief Executive Officer, Mr. Lucatz, and with one of its director (active director rendering services to Micronet) pursuant to which these directors agreed to postpone receipt of their management fees to which they are entitled under their respective agreements for a period of one year commencing as of January 1, 2019. In the event Micronet's cash flow position improves and allows (as determined by Micronet) for the repayment of such management fees, the postponement set forth above shall be terminated (even if prior to the end of fiscal year 2019).

On November 19, 2018, in support of Micronet's working capital needs, the Company agreed to extend Micronet financial backing in the aggregate amount of up to \$250,000. The terms of such financial backing may be in the form of a loan or another form of investment and shall be either on identical terms as Micronet may obtain from third parties or, in the alternative, terms that may be agreed upon by the Company and Micronet by December 15, 2018. In addition, the parties agreed that if the aforementioned financial backing is in a form of a loan, it shall be repaid by Micronet no later than December 31, 2020, but not prior to January 1, 2020.

In addition, on November 19, 2018, in support of Micronet's working capital needs, D.L. Capital, a company controlled by the Company's Chief Executive Officer, Mr. Lucatz, agreed to extend Micronet financial backing in the aggregate amount of up to \$150,000 in the event the aforementioned financial backing by the Company would not be sufficient for Micronet's working capital needs. The terms of such financial backing may be in the form of a loan or another form of investment and shall be either on identical terms as Micronet may obtain from third parties or, in the alternative, terms that may be agreed upon by D.L. Capital and Micronet by December 15, 2018. In addition, the parties agreed that if the aforementioned financial backing is in the form of a loan, it shall be repaid by Micronet no later than December 31, 2020, but not prior to January 1, 2020.

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

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

demand for our products as well as future growth, either through internal efforts, development of new products, potential segments and markets or through acquisitions;

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;

our financing needs and our ability to continue to raise capital;

Micronet’s ability to implement its streamlining of its production activity and its ability to raise additional capital;

financing strategies;

use of proceeds from any future financing, if any;

the sufficiency of our capital resources; and



the proposed transaction with BNN Technology PLC.

**Our business and operations are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained or implied in this report. Except as required by law, we assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. Further information on potential factors that could affect our business is described under the heading “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Readers are also urged to carefully review and consider the various disclosures we have made in that report. The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.**

## **Overview**

We provide rugged mobile devices for the growing commercial mobile resource management, or MRM, market and high tech solutions for severe environments and the battlefield, including missile defense technologies for the aerospace and defense markets. 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 operate through our Israel-based company, Micronet, in which we have a controlling interest, which develops, manufactures, integrates and globally markets rugged computers and tablets.

Micronet is a publicly-traded company on the Tel-Aviv Stock Exchange, or 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 Electronics Inc., or Beijer, 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.

On December 31, 2017, we, Enertec and our previously 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. 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.

On May 22, 2018, the Company closed on the sale, or the Closing, of all of the outstanding equity of its wholly owned subsidiary Enertec, pursuant to the terms of the previously reported Share Purchase Agreement.

At the Closing, the Company received aggregate gross proceeds of approximately \$4.7 million, of which 10% will be held in escrow for up to 14 months after the Closing to satisfy certain potential indemnification claims. The final consideration amount was adjusted, pursuant to the terms of the Share Purchase Agreement, as a result of adjustments relating to certain Enertec's debts at the Closing. In addition, Coolisys also assumed approximately \$4.0 million of Enertec's debt. The Company's capital gain from the sale of Enertec, based on the Company's balance sheet at September 30, 2018, was approximately \$6.8 million.

As previously reported, and in conjunction with, and as a condition to, the Closing, the Company, Enertec, the Buyer, DPW and Mr. David Lucatz, the Company's Chief Executive Officer, executed 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 Buyer (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.

The descriptions of the Share Purchase Agreement and Consulting Agreement are qualified in their entirety by reference to the complete text of the Share Purchase Agreement and Consulting Agreement which have been filed as Exhibits 10.1 and 10.2, respectively, to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 3, 2018.

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. 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 Federal Motor Carrier Safety Administration, or FMCSA, announced the publication of the final rule and implementation schedule of its Electronic Logging mandate. The Electronic Logging mandate requires interstate commercial truck and bus companies to use Electronic Logging Devices, or ELDs, 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.

The Electronic Logging 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.

## Results of Operations

### Three and Nine Months Ended September 30, 2018 Compared to Three and Nine Months Ended September 30, 2017

Revenues for the three and nine months ended September 30, 2018 were \$2,216,000 and \$12,897,000, respectively, compared to \$5,473,000 and \$11,937,000 for the three and nine months ended September 30, 2017, respectively. This represents a decrease of \$3,257,000 and increase of \$960,000, or 59% and 8%, for the three and nine months ended September 30, 2018, respectively. The decrease in revenues for the three months ended September 30, 2018 is primarily due to a decrease in customer orders, and their value, a trend that has continued throughout the current fiscal year. The Company is experiencing a significant decline in the rate at which it receives new orders, against the background of a record volume of orders recorded by the Company at the end of 2017, which contributed to the high revenues in the first half of 2018. The decrease in orders received this year has had a significant effect on the low revenues recorded in the third quarter of 2018. The reasons for the decrease in the volume of the orders are the delay in the launch of our fourth generation products, high levels of inventory among the Company's customers and increased competition in the market for the Company's products.

Gross profit for the three and nine months ended September 30, 2018 decreased by \$1,450,000 and increased by \$657,000, respectively, to \$54,000 and \$3,308,000, and represents 2% and 26% of the revenues. This is in comparison to gross profit of \$1,504,000 and \$2,651,000, representing 27% and 22% of the revenues for the three and nine months ended September 30, 2017, respectively. The decrease in gross margin for the three months ended September 30, 2018, is mainly a result of the decrease in revenues and slow inventory reduction. The increase in gross margin for the nine months ended September 30, 2018, is mainly a result of the increase in revenues and cost savings as a result of certain efficiency initiatives and cost reductions.

## Selling and Marketing

Selling and marketing costs are part of operating expenses. Selling and marketing costs for the three and nine months ended September 30, 2018 were \$383,000 and \$1,217,000, respectively, compared to \$480,000 and \$1,330,000 for the three and nine months ended September 30, 2017, respectively. This represents a decrease of \$97,000 and \$113,000, or 20% and 8%, for the three and nine months ended September 30, 2018 respectively. The decreases are mainly due to decreased commission expenses resulting from the revenue decrease described above.

## General and Administrative

General and administrative costs are part of operating expenses. General and administrative costs for the three and nine months ended September 30, 2018 were \$2,544,000 and \$5,070,000, respectively, compared to \$1,033,000 and \$3,077,000 for the three and nine months ended September 30, 2017, respectively. This represents an increase of \$1,511,000 and \$1,993,000, or 146% and 65%, for the three months and nine months ended September 30, 2018, respectively. The increases are mainly a result of (i) increases in expenses related to Enertec's sale, including professional expenses and bonuses paid to our Chief Executive Officer and certain consultants, (ii) options and shares granted to employees and directors and (iii) the existence of doubtful debt in the amount of \$1,341,000.

### **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 three and nine months ended September 30, 2018, were \$425,000 and \$1,457,000, respectively, compared to \$526,000 and \$1,430,000 for the three and nine months ended September 30, 2017, respectively. This represents a decrease of \$101,000 and an increase of \$27,000, or 19% and 2%, for the three and nine months ended September 30, 2018, respectively. The increase in research and development costs for the three months ended September 30, 2018, is primarily a result of the change in the exchange rate of NIS to the U.S. dollar.

### **Loss from Operations**

Our loss from operations for the three and nine months ended September 30, 2018 was \$3,512,000 and \$5,088,000, respectively, or 158% and 40% of revenues, compared to loss from operations of \$802,000 and \$3,923,000, respectively, or 15% and 33% of revenues, for the three and nine months ended September 30, 2017, respectively. The decreases for the three and nine months ended September 30, 2018 are mainly a result of the decrease in revenues described above.

### **Financial Expenses, net**

Financial expenses, net for the three and nine months ended September 30, 2018 were \$104,000 and \$956,000, respectively, compared to expenses of \$134,000 and \$177,000 for the three and nine months ended September 30, 2017, respectively. This represents a decrease of \$30,000 and an increase of \$779,000, for the three and nine months ended September 30, 2018, respectively. The increase in financial expenses for the nine months ended September 30, 2018, is primarily due to changes in currency exchange rates and interest for the YA II loans.

### **Net Profit/Loss Attributed to MICT, Inc.**

Our net loss attributed to MICT, Inc. for the three and nine months ended September 30, 2018 was \$2,636,000 and net profit of \$10,000 for the nine months ended September 30, 2018, respectively, compared to a net loss of \$1,295,000 and \$4,238,000 for the three and nine months ended September 30, 2017, respectively. This represents an increase in net loss of \$1,341,000 for the three months ended September 30, 2018 and an increase in net profit of \$4,248,000 for the nine months ended September 30, 2018, as compared to the same periods last year. The increase in net profit for the nine months ended September 30, 2018 is primarily attributable to the Closing of the sale of all of Enertec's outstanding equity to Coolisys pursuant to the terms of the Share Purchase Agreement. The increase in net loss for the three months ended September 30, 2018 is primarily to the decrease in revenue.

### **Discontinued Operation**

As a result of the proposed sale of our Enertec subsidiary to Coolisys, we 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 a discontinued operation. Enertec's net loss decreased from \$1,738,000 for the nine months ended September 30, 2017, to a net profit of \$4,894,000 for the five months ended May 22, 2018. The net loss for the five months ended May 22, 2018 was partially offset by the \$6,844,000 capital gain realized from such sale, resulting in a net profit of \$4,894,000.

### **Non-GAAP Financial Measures**

In addition to providing financial measurements based on generally accepted accounting principles in the United States, 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 in 2014. The amount of an acquisition's purchase price allocated to intangible assets and term of its related amortization are unique to this transaction. The amortization of acquired intangible assets is 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.

**Stock-based compensation** – Stock based compensation consists of share based awards granted to certain individuals. They are non-cash and affected by our historical stock prices which are irrelevant to forward-looking analyses and are not necessarily linked to our operational performance.

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The following table reconciles, for the periods presented, GAAP net loss from continued operation attributable to MICT, Inc. to non-GAAP net loss attributable to MICT, Inc.:

	Nine months ended September 30, (Dollars in thousands, other than share and per share amounts)	
	2018	2017
GAAP net loss from continued operation	\$ (6,610 )	\$ (4,104 )
GAAP net loss attributable to non-controlling interests	(1,726 )	(1,604 )
GAAP net loss attributable to MICT, Inc. from continued operation	\$ (4,884 )	\$ (2,500 )
Amortization of acquired intangible assets	325	384
Stock-based compensation and shares issued to service providers	617	74
Income tax-effect of above non-GAAP adjustments	-	(3 )
Total Non-GAAP net loss attributable to MICT, Inc.	\$ (3,942 )	\$ (2,045 )
Non-GAAP net loss per share attributable to MICT, Inc. continued operation	(0.43 )	(0.30 )
Shares used in per share calculations	9,107,034	6,778,300
GAAP net loss per share attributable to MICT, Inc. continued operation	(0.54 )	(0.37 )
Shares used in per share calculations	9,107,034	6,778,300



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	Three months ended		September 30,	
	(Dollars in thousands, other than share and per share amounts)			
	2018		2017	
GAAP net loss from continued operation	\$	(4,178 )	\$	(943 )
GAAP net loss attributable to non-controlling interests		(1,542 )		(257 )
GAAP net (loss attributable to MICT, Inc. continued operation	\$	(2,636 )	\$	(686 )
Amortization of acquired intangible assets		107		134
Stock-based compensation and shares issued to service providers		498		22
Income tax-effect of above non-GAAP adjustments		-		-
Total Non-GAAP net loss attributable to MICT, Inc.	\$	(2,031 )	\$	(530 )
Non-GAAP net loss per share attributable to MICT, Inc. continued operation		(0.22 )		(0.07 )
Shares used in per share calculations		9,342,115		7,213,294
GAAP net loss per share attributable to MICT, Inc. continued operation		(0.28 )		(0.09 )
Shares used in per share calculations		9,342,115		7,213,294

### Liquidity and Capital Resources

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

As of September 30, 2018, our total cash and cash equivalents and restricted cash balance was \$2,537,000, as compared to \$2,398,000 as of December 31, 2017. This reflects an increase of \$139,000 in cash and cash equivalents and restricted cash. The increase in cash and cash equivalents is primarily a result of the sale of Enertec to Coolisys, partially offset by the repayment of certain loans.

As disclosed in our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report, Micronet anticipates that it will be required to obtain additional financing during the coming year due to an increase in cash flow needs on the one hand, and the utilization of most of its existing financing resources on the other. The reason for the increase in cash needs is a significant decrease in sales in the third quarter of 2018 and a lower sales forecast than in previous years. Micronet estimates that the reason for the decline in the income forecast is due to a number of factors, including a decrease in the rate of sales of Micronet's customers to end customers, delays in the launch of the new generation of products and a decrease in demand due to delays in the implementation of the Electronic Logging mandate. These factors are expected to generate a cash flow deficit of approximately NIS 1,500,000 for Micronet for the next 12 months.

On the other hand, in order to cope with the decline in the timing and volume of sales, Micronet is implementing a process of streamlining its production activity, increasing the sources and amounts of credit from banks, and contemplating the sale of certain of its real estate assets. In addition, Micronet is examining additional options for raising capital in the public and private markets. In addition, on November 19, 2018, the Company agreed to extend financial backing to Micronet of up to \$250,000 in the aggregate and the Company's Chief Executive Officer, David Lucatz, through D.L. Capital, an entity he controls, agreed to extend financial backing to Micronet of up to \$150,000 in the event Micronet is unable to find alternate sources of financing. Micronet's estimation, the activities mentioned above are expected to enable Micronet to finance the cash flow deficit as mentioned above for the next 12 months.

On December 31, 2017, we, Enertec and our previously 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. On May 22, 2018, the Company completed the Closing. At the Closing, the Company received aggregate gross proceeds of approximately \$4.7 million, of which 10% will be held in escrow for up to 14 months after the Closing to satisfy certain potential indemnification claims. The final consideration amount was adjusted, pursuant to the terms of the Share Purchase Agreement, as a result of adjustments relating to certain Enertec's debts at the Closing. In addition, Coolisys also assumed approximately \$4.0 million of Enertec's debt.

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.

On June 30, 2016, the Company and MICT Telematics entered into a Note Purchase Agreement with YA II, whereby YA II purchased \$600,000 of notes from the Company, or the June 2016 Note. The outstanding principal balance of the notes bears interest at 7% per annum. On a quarterly basis commencing on October 10, 2016, the Company was 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 MICT Telematics 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, or the October 2016 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 MICT Telematics 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, or the December 2016 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 MICT Telematics 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 MICT Telematics.

Pursuant to the Second Supplemental Agreement, the Company, MICT Telematics 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 had 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 had previously repaid the May 1, 2017 payment), on September 30, 2017, the Company would make a payment of \$100,000, on December 31, 2017 the Company would make a payment of \$150,000 and on March 31, 2018, the Company would 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 was required to make a payment of \$300,000, on June 30, 2018, the Company was required to make a payment of \$400,000 and on September 30, 2018, the Company was required to 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 MICT Telematics executed the Third Supplemental Agreement which supplements the Note Purchase Agreement executed by the parties on October 28, 2016, or the August 2017 Note. 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 MICT Telematics.

On March 29, 2018, the Company and MICT Telematics 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 \$3,200,000, which shall mature on October 1, 2019, and bears interest at 6% per annum, or the Series A Debentures, and (2) a Series B Convertible Debenture in the principal aggregate amount of \$1,800,000, which shall mature on October 1, 2019 and bears interest at 6% per annum, 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 in the June 2016 Note, the October 2016 Note, the December 2016 Note, and the August 2017 Note, or collectively, the Prior Notes, with a total outstanding aggregate principal amount of \$3,200,000. The Series B Debenture was issued and sold for aggregate gross cash proceeds of \$1,800,000. 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 MICT Telematics.

In addition, pursuant to the terms of the securities purchase agreement, the Company agreed to issue to YA II a five year warrant to purchase 375,000 shares of the Company's common stock at a purchase price of \$2.00 per share, a five year warrant to purchase 200,000 shares of the Company's common stock at a purchase price of \$3.00 per share and a five year 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 \$10,000,000 of shares of the Company's common stock, over a three-year commitment period.

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 May 8, 2018, the Company and YA II mutually agreed to terminate the 2017 SEDA. As a result of the termination of the 2017 SEDA, the Company's obligation to pay any and all of the remaining Commitment Fee owed under the 2017 SEDA was terminated as well. The Company did not conduct any sales pursuant to the 2017 SEDA prior to its termination.

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 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 approximately \$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, 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 December 30, 2015, the Company entered into a Loan Agreement, or the Meydan Loan, with Meydan Family Trust No. 3, or 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 the Company for working capital and general corporate purposes. 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 May 31, 2017. The Meydan Loan was fully paid in March 2018.

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 Israeli Prime, or Prime, plus 2.45%, 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%, 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 September 30, 2018, the balance on the Mercantile Loan was \$867,000 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 3,000,000. In the event the Mercantile Loan is repaid prior to the third anniversary of the Mercantile Loan, the gain to Mercantile Bank resulting from the Phantom Stock Option shall not exceed NIS 2 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 September 30, 2018, the fair value of this Phantom Stock Option was \$0.

In March 2018, Micronet entered into a credit line agreement, or the Mizrahi-Tefahot Loan Agreement, with Mizrahi-Tefahot Bank for borrowings of up to a total of \$1,400,000 at a rate of Prime plus 1.9%. As of September 30, 2018, the balance on this credit line was \$855,000. The Company may cancel the Mizrahi-Tefahot Loan Agreement with an advance notice of 14 days. This credit arrangement was obtained to support Micronet's working capital.

On July 10, 2018, Micronet received a loan from Mizrahi-Tefahot Bank in the amount of NIS 5 million, in accordance with a financing agreement dated March 25, 2018. The loan will bear annual interest at a rate of Prime plus 2.5%. The loan has a term of 36 months and will be repaid in twelve quarterly installments payable from October 10, 2018 to July 11, 2021.

As of September 30, 2018, our total current assets were \$10,371,000, as compared to \$25,308,000 at December 31, 2017. The decrease is mainly due to the Closing of the sale of all of Enertec's outstanding equity to Coolisys pursuant to the terms of the Share Purchase Agreement.

Our trade accounts receivable at September 30, 2018 were \$2,945,000 as compared to \$5,183,000 at December 31, 2017. The decrease is primarily due to the decrease in revenues and to a provision for doubtful debt in Micronet.

As of September 30, 2018, our working capital was \$3,253,000, as compared to \$3,062,000 at December 31, 2017. The decrease in the working capital is primarily due to the decrease in trade accounts receivables and a decrease in other accounts receivables.

As of September 30, 2018, our total debt, excluding any debt associated with our discontinued operation, was \$6,165,000 as compared to \$5,168,000 at December 31, 2017. The increase in total debt is primarily due to Micronet's additional loans from Mizrahi-Tefahot Bank.

Our bank and other debt is composed of short-term loans amounting to \$4,077,000 as of September 30, 2018 compared to \$3,789,000 at December 31, 2017, and long-term loans amounting to \$2,088,000 as of September 30, 2018 compared to \$1,379,000 at December 31, 2017.

Our current debt includes the bank debt of our subsidiaries as described above and loans from YA II :

Our bank debt is composed of short-term loans to MICT Telematics and Micronet amounting to \$2,225,000 as of September 30, 2018 compared to \$1,582,000, as of December 31, 2017. These short-term loans bear interest at rates between Prime (currently 1.60%) plus 1.9% to 2.5%. The bank loans have maturity dates between October 2018 and July 2021 and bear interest at a rate of Prime plus 2.5%.

MICT Telematics has covenanted under its bank loan that the Company will present separate financial statements equity of not less than 32.5% of total assets. Certain restricted cash is used as collateral to secure the loan.

As described above, on March 29, 2018, the Company and MICT Telematics 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 \$3,200,000 and (2) the Series B Convertible Debenture in the principal aggregate amount of \$1,800,000.

In March 2018, Micronet entered into the Mizrahi-Tefahot Loan Agreement with Mizrahi-Tefahot Bank for borrowings of up to a total of NIS 5,000,000. In addition, in July 2018, Micronet received a loan from Mizrahi-Tefahot Bank in the amount of NIS 5,000,000. Pursuant to these borrowing arrangements, Micronet has covenanted that it will present separate financial statements reflecting: (A) annual EBITDA shall be not less than \$750,000; (B) the ratio of customer debt to financial credit (credit utilized by Micronet under each agreement with Mizrahi-Tefahot Bank for the deduction of bank guarantees) shall not be less than 1:1 on the basis of a report; (C) the ratio of inventory to financial credit shall not be less than 1:1 on the basis of a semi-annual report; and (D) the tangible shareholders' equity shall not be less than NIS 15,000,000 (or approximately \$4,286,000) and not less than 35% of the total balance sheet deducted on the basis of the Micronet's semi-annual reports. As of September 30, 2018, Micronet has met these covenants.

## Financing Needs

Although we currently do not have any material commitments for capital expenditures, we expect a need for additional capital as we continue to support our subsidiary and the growth of our business. Among other activities, we may be required to continue to support our subsidiary, which may include plans to develop, manufacture and market larger-scale MRM solutions, support its growing MRM manufacturing and finance needs, continue the development and testing of MRM suite of products and systems, and increase management, marketing, and administration infrastructure. Our future liquidity and capital funding requirements will depend on numerous factors, including but not limited to (1) the amount of financial support we will provide our subsidiary and (2) the capital needed for any additional acquisitions we might conduct.

As disclosed in our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report, Micronet anticipates that it will be required to obtain additional financing during the coming year due to an increase in cash flow needs on the one hand, and the utilization of most of its existing financing resources on the other. In order to cope with the decline in the timing and volume of sales, Micronet is taking steps to implement certain efficiency measures, particularly in its production activity, increasing the sources and amounts of credit from banks, and contemplating the sale of certain of its real estate assets. In addition, Micronet is examining additional options for raising capital in the public and private markets. In addition, on November 19, 2018, the Company agreed to extend financial backing to Micronet of up to \$250,000 in the aggregate and D.L. Capital, a company controlled by our Chief Executive Officer, Mr. Lucatz, agreed to extend financial backing of up to \$150,000 to Micronet in the event Micronet is unable to find alternate sources of financing. Micronet's estimation, the activities mentioned above are expected to enable Micronet to continue its operations in the normal course of business for the next 12 months.

In the remainder of 2018, we expect to pay off the current portion of certain bank loans in the amount \$508,000 and the YA II loans in the aggregate amount of \$625,000, using our cash flow from our operations, or possibly additional debt or equity financings.

On May 22, 2018, the Company, through its wholly owned subsidiary, Enertec Management Ltd., conducted the Closing of all of the outstanding equity of its wholly owned subsidiary Enertec, pursuant to the terms of the previously reported Share Purchase Agreement. At the Closing, the Company received aggregate gross proceeds of approximately \$4.7 million, of which 10% will be held in escrow for up to 14 months after the Closing to satisfy certain potential indemnification claims. The final consideration amount was adjusted, pursuant to the terms of the Share Purchase Agreement, as a result of adjustments relating to certain Enertec's debts at the Closing. In addition, Coolisys also assumed approximately \$4.0 million of Enertec's debt.

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, the Company may, from time to time, sell common stock, warrants or units in one or more offerings up to a total dollar amount of \$30 million. To date, we have sold approximately \$1,000,000 of our securities pursuant to our existing shelf registration statement.

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. On May 9, 2018, we agreed to terminate the 2017 SEDA.

Based on our current business plan and existing loans, we anticipate that our existing cash balances and cash generated from future income will be sufficient to permit us to conduct our operations and carry out our contemplated business plans for at least the next 12 months from the date of this Quarterly Report. We believe that we may need to raise additional funds if we want to materially grow our current business decrease our dependence on our existing cash and other liquidity resources. Currently, the only main external sources of liquidity are our banks, and the YA II loans, and we therefore may seek additional financing from them or through securities offerings in the next 12 months. We intend to use such funds in order to sustain or expand our operations, refinance 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 support or 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.

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

Not applicable.

### **Item 4. Controls and Procedures.**

#### **Evaluation of disclosure controls and procedures**

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Company carried out an evaluation with the participation of the Company's management, including Mr. David Lucatz, the Company's Chief Executive Officer, and Mrs. Tali Dinar, the Company's Chief Financial Officer (our principal executive officer and principal financial officer, respectively), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) as of September 30, 2018. Based upon that evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

#### **Changes in internal control over financial reporting**

No change occurred in the Company's internal control over financial reporting during the quarterly period ended September 30, 2018, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.





**PART II - OTHER INFORMATION****Item 5. Other Information.**

On November 19, 2018, in support of Micronet's working capital needs, the Company agreed to extend Micronet financial backing in the aggregate amount of up to \$250,000. The terms of such financial backing may be in the form of a loan or another form of investment and shall be either on identical terms as Micronet may obtain from third parties or, in the alternative, terms that may be agreed upon by the Company and Micronet by December 15, 2018. In addition, the parties agreed that if the aforementioned financial backing is in the form of a loan, it shall be repaid by Micronet no later than December 31, 2020, but not prior to January 1, 2020.

In addition, on November 19, 2018, in support of Micronet's working capital needs, D.L. Capital, a company controlled by the Company's Chief Executive Officer, Mr. Lucatz, agreed to extend Micronet financial backing in the aggregate amount of up to \$150,000 in the event the aforementioned financial backing by the Company would not be sufficient for Micronet's working capital needs. The terms of such financial backing may be in the form of a loan or another form of investment and shall be either on identical terms as Micronet may obtain from third parties or, in the alternative, terms that may be agreed upon by D.L. Capital and Micronet by December 15, 2018. In addition, the parties agreed that if the aforementioned financial backing is in the form of a loan, it shall be repaid by Micronet no later than December 31, 2020, but not prior to January 1, 2020.

**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
3.1	<u>Composite Copy of the Company's Certificate of Incorporation, as amended on July 13, 2018 (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 13, 2018).</u>
3.2	<u>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).</u>
31.1*	<u>Rule 13a-14(a) Certification of Chief Executive Officer.</u>
31.2*	<u>Rule 13a-14(a) Certification of Chief Financial Officer.</u>
32.1**	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.</u>
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101\* The following materials from MICT, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

\*Filed herewith

\*\*Furnished herewith

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**SIGNATURES**

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

**MICT, INC.**

Date: November 19, 2018 By: /s/ David Lucatz

Name: David Lucatz

Title: Chairman, President and  
Chief Executive Officer  
(Principal Executive Officer)

Date: November 19, 2018 By: /s/ Tali Dinar

Name: Tali Dinar

Title: Chief Financial Officer  
(Principal Financial Officer)

**EXHIBIT INDEX**

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