

ARENA PHARMACEUTICALS INC

Form 424B5

May 15, 2012

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The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any state or other jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-181434

SUBJECT TO COMPLETION, DATED MAY 15, 2012

PRELIMINARY PROSPECTUS SUPPLEMENT

(to Prospectus dated May 15, 2012)

Shares

Common Stock

We are offering _____ shares of our common stock. Our common stock is listed on The NASDAQ Global Select Market under the symbol ARNA. On May 14, 2012, the last reported sale price of our common stock on The NASDAQ Global Select Market was \$6.61 per share.

Investing in our common stock involves a high degree of risk. Please read Risk Factors beginning on page S-4 of this prospectus supplement and the documents incorporated by reference into this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	\$	\$
Underwriting Discounts and Commissions	\$	\$
Proceeds to Arena before expenses	\$	\$

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Delivery of the shares of common stock is expected to be made on or about May , 2012. We have granted the underwriters an option for a period of 30 days to purchase up to an additional shares of our common stock solely to cover over-allotments. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be \$ and the total proceeds to us, before expenses, will be \$.

Joint Book-Running Managers

Jefferies

Piper Jaffray

Co-Manager

BMO Capital Markets

Prospectus Supplement dated May , 2012

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We have not, and the underwriters have not, authorized anyone to provide you with information different than that contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus that we have authorized for use in connection with this offering. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and in any free writing prospectus that we have authorized for use in connection with this offering, is accurate only as of the date of those respective documents. Our business, financial condition, results of operations and prospects may have changed since those dates. You should read this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus that we have authorized for use in connection with this offering, in their entirety before making an investment decision. You should also read and consider the information in the documents to which we have referred you in the sections of this prospectus supplement entitled **Where You Can Find More Information** and **Incorporation of Certain Information by Reference**.

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About this Prospectus Supplement

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus dated May 15, 2012, including the documents incorporated by reference therein, provides more general information about the securities we may offer from time to time, some of which may not apply to the offering described in this prospectus supplement. Generally, when we refer to this prospectus, we are referring to both parts of this document combined. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or in any document incorporated by reference that was filed with the Securities and Exchange Commission, or SEC, before the date of this prospectus supplement, on the other hand, you should rely on the information in this prospectus supplement. If any statement in one of these documents is inconsistent with a statement in another document having a later date for example, a document incorporated by reference in the accompanying prospectus the statement in the document having the later date modifies or supersedes the earlier statement.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement to ARNA, we, our or similar references mean Arena Pharmaceuticals, Inc.

This prospectus supplement, the accompanying prospectus and the information incorporated herein and therein by reference may include trademarks, service marks and trade names owned by us or other companies. All trademarks, service marks and trade names included or incorporated by reference into this prospectus supplement or the accompanying prospectus are the property of their respective owners.

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Prospectus Supplement Summary

*This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all the information you should consider before investing in our common stock. You should read and consider carefully the more detailed information in this prospectus supplement and the accompanying prospectus, including the factors described under the heading *Risk Factors* in this prospectus supplement beginning on page S-4 and the financial and other information incorporated by reference in this prospectus supplement and the accompanying prospectus, as well as the information included in any free writing prospectus that we have authorized for use in connection with this offering, before making an investment decision.*

Company Overview

We are a clinical-stage biopharmaceutical company focused on discovering, developing and commercializing oral drugs that target G protein-coupled receptors, or GPCRs, an important class of validated drug targets, in four major therapeutic areas: cardiovascular, central nervous system, inflammatory and metabolic diseases. We have submitted regulatory applications for US and EU approval of our most advanced drug candidate, lorcaserin, which is intended for weight management. We intend to selectively advance certain of our research and development programs, and also to seek collaborators or other licensing opportunities for our programs.

In December 2011, we resubmitted to the US Food and Drug Administration, or FDA, a New Drug Application, or NDA, for lorcaserin. The FDA accepted the resubmission for filing and review and assigned a new Prescription Drug User Fee Act, or PDUFA, target date of June 27, 2012. Previously, in October 2010, the FDA issued a Complete Response Letter, or CRL, with respect to the original lorcaserin NDA we submitted in December 2009. In the CRL, the FDA stated that it had determined that it could not approve the application in its then present form.

On May 10, 2012, the FDA's Endocrinologic and Metabolic Drugs Advisory Committee met to discuss the lorcaserin NDA. The advisory committee voted 18 to 4, with one abstention, that the available data demonstrate that the potential benefits of lorcaserin outweigh the potential risks when used long-term in a population of overweight and obese individuals.

We are also seeking regulatory approval for lorcaserin in the European Union. On March 2, 2012, we filed a marketing authorization application, or MAA, for lorcaserin through the centralized procedure with the European Medicines Agency, or EMA. The EMA accepted the filing, which initiates the EMA's review process.

Our wholly owned subsidiary, Arena Pharmaceuticals GmbH, or Arena GmbH, has provided Eisai Inc., or Eisai, exclusive rights to commercialize lorcaserin in most of North and South America, including the United States, Canada, Mexico and Brazil, subject to applicable regulatory approval. We have retained commercial rights to lorcaserin outside of North and South America, including in the European Union and Asia.

Our prioritized earlier-stage programs include APD811, an internally discovered, orally available agonist of the prostacyclin receptor intended for the treatment of pulmonary arterial hypertension. APD811 completed a single-dose, Phase 1 clinical trial in 2011, and we plan to initiate a multiple dose, dose titration, Phase 1 clinical trial of APD811 this year. We also plan to file in 2012 an Investigational New Drug, or IND, application with the FDA for APD334 (an internally discovered, orally available agonist of the S1P1 receptor intended for the treatment of a number of conditions related to autoimmune diseases, including multiple sclerosis) and to continue development of our programs on APD371 (an internally discovered, orally available agonist of the cannabinoid receptor 2 intended for the treatment of pain) and GPR119 agonists (intended for the treatment of type 2 diabetes).

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Along with lorcaserin and our prioritized earlier-stage programs, we have additional internally discovered oral drug candidates as well as active research programs intended to discover drug candidates. With respect to the additional drug candidates, we are not planning to conduct significant development activities, including any clinical trials, at this time. We may consider resuming their development in the future with one or more collaborators or independently, depending on the cost of further development, financial resources and their potential.

The headquarters of our operations outside of the United States is in Switzerland at Arena GmbH. Activities conducted at this location include manufacturing, quality control, quality assurance, development of manufacturing processes, qualifying suppliers and otherwise managing the global supply chain, regulatory compliance, distribution of finished products, and European strategic planning and development.

We have commercial rights for all of our programs and drug candidates, with the exception of Eisai's right to commercialize lorcaserin in most of North and South America. We have not received regulatory approval to market or sell any drugs or generated commercial revenues from selling any drugs, other than in connection with manufacturing drugs for Siegfried Ltd. in our Swiss drug product manufacturing facility.

Company Information

We incorporated in the state of Delaware in April 1997. Our corporate offices are located at 6166 Nancy Ridge Drive, San Diego, California 92121. Our telephone number is 858.453.7200. Our website address is www.arenapharm.com. The information contained in, or that can be accessed through, our website is not part of, and is not incorporated into, this prospectus supplement or the accompanying prospectus and should not be considered part of this prospectus supplement or the accompanying prospectus.

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The Offering

Common stock offered by us	shares
Common stock to be outstanding immediately after this offering	shares
Over-allotment option	We have granted the underwriters an option to purchase up to additional shares of our common stock to cover over-allotments, if any. This option is exercisable, in whole or in part, for a period of 30 days from the date of this prospectus supplement.
Use of proceeds	We intend to use the net proceeds from this offering for general corporate purposes, which may include expenses related to the commercialization of lorcaserin, if approved, as well as for research and development expenses, capital expenditures, working capital, and general and administrative expenses. See Use of Proceeds on page S-7 of this prospectus supplement.
NASDAQ Global Select Market listing	Our common stock is listed on The NASDAQ Global Select Market under the symbol ARNA.
Risk factors	Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page S-4 of this prospectus supplement.

Outstanding Shares

The number of shares of our common stock to be outstanding immediately after this offering is based on 184,500,778 shares outstanding as of May 10, 2012, and excludes as of that date:

- n 8,631,410 shares of common stock issuable upon the exercise of outstanding warrants at an exercise price of \$1.745 per share;
- n 10,368,590 shares of common stock issuable upon the exercise of outstanding warrants at an exercise price of \$1.68 per share;
- n 1,965,418 shares of common stock issuable upon the exercise of outstanding warrants at an exercise price of \$4.34 per share;
- n 1,467,405 shares of common stock issuable upon the exercise of outstanding warrants at an exercise price of \$8.76 per share;
- n 14,313,046 shares of common stock issuable upon the exercise of outstanding options at a weighted-average exercise price of \$4.29 per share;

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n 1,643,971 shares of common stock available for future issuance under our 2009 Long-Term Incentive Plan;

n 487,132 shares of common stock available for future issuance under our 2009 Employee Stock Purchase Plan; and

n 79,169 shares of common stock available for future issuance under our Deferred Compensation Plan.

Except as otherwise indicated, all information in the prospectus supplement assumes no exercise by the underwriters of their over-allotment option.

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Risk Factors

Investing in our common stock involves a high degree of risk. Our business, prospects, financial condition or operating results could be materially adversely affected by the risks identified below, as well as other risks not currently known to us or that we currently consider immaterial. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing the risks described below, you should also refer to the information contained in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and other documents which are incorporated by reference in this prospectus supplement and the accompanying prospectus in their entirety, and other documents that we file from time to time with the SEC.

Risks Related to this Offering

Management will have broad discretion as to the use of the proceeds from this offering and we may not use the proceeds effectively.

Our management will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. Our failure to apply these funds effectively could have a material adverse effect on our business, delay the development of our product candidates and cause the price of our common stock to decline.

If you purchase the common stock sold in this offering, you will experience immediate and substantial dilution in your investment. You will experience further dilution if we issue additional securities in future fundraising transactions.

Since the price per share of our common stock being offered is substantially higher than the net tangible book value per share of our common stock, you will suffer substantial dilution with respect to the net tangible book value of the common stock you purchase in this offering. Based on the public offering price of \$ per share and our net tangible book value as of March 31, 2012, if you purchase shares of common stock in this offering you will suffer immediate and substantial dilution of \$ per share with respect to the net tangible book value of the common stock. See the section entitled Dilution for a more detailed discussion of the dilution you will incur if you purchase common stock in this offering.

In addition, we have a significant number of stock options and warrants outstanding. To the extent that outstanding stock options or warrants have been or may be exercised or other securities issued, investors purchasing our common stock in this offering may experience further dilution. In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders or result in downward pressure on the price of our common stock.

We have reserved for future issuance substantially all of our authorized but unissued shares of common stock, which may impair our ability to conduct future financing and other transactions.

Our certificate of incorporation currently authorizes us to issue up to 242,500,000 shares of common stock and 7,500,000 shares of preferred stock. As of May 10, 2012, we had a total of 184,500,778 shares of common stock outstanding. Of the remaining shares of common stock that were authorized but unissued, a substantial portion are reserved for future issuance pursuant to options outstanding under our equity incentive plans, shares issuable under our 2009 Long-Term Incentive Plan, shares issuable under our 2009 Employee Stock Purchase Plan, shares issuable under our Deferred Compensation Plan, and shares issuable under warrants to purchase shares of our common stock with an expiration date of June 17, 2015, a seven-year warrant issued in June 2006 to purchase shares of our common stock and a seven-year warrant issued in August 2008 to purchase shares of our common stock. As a result, our ability to issue shares of common stock other than pursuant to existing arrangements will be limited until such time, if ever, that we are able to further amend our certificate of incorporation to increase our authorized shares of common stock or shares currently reserved for issuance otherwise become available (for example, due to the termination of the underlying agreement to issue the shares).

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In lieu of issuing common stock or securities convertible into or exercisable for shares of our common stock in any future equity financing transactions, we may need to issue some or all of our authorized but unissued shares of preferred stock, which would likely have superior rights, preferences and privileges to those of our common stock, or we may need to issue debt that is not convertible into shares of our common stock, which may require us to grant security interests in our assets and property or impose covenants upon us that restrict our business. If we are unable to issue additional shares of common stock or securities convertible into or exercisable for shares of our common stock, our ability to enter into strategic transactions, such as acquisitions of companies or technologies, may also be limited. We are proposing to our stockholders at our June 2012 annual stockholders meeting to further amend our certificate of incorporation to increase the total number of our authorized shares from 250.0 million to 375.0 million and to increase the number of authorized shares of common stock from 242.5 million to 367.5 million. This proposal requires approval by the holders of a majority of our outstanding shares of common stock then entitled to vote, and we cannot assure you that such a proposal will be approved. If we are unable to complete financing, strategic or other transactions due to our inability to issue additional shares of common stock or securities convertible into or exercisable for shares of our common stock, our financial condition and business prospects may be materially harmed.

Certain Risks Relating to Our Business

We may not receive FDA approval for lorcaserin despite the recent vote of the FDA advisory committee.

In December 2011, we resubmitted the lorcaserin NDA, and the FDA subsequently accepted the NDA for filing. On May 10, 2012, the FDA's Endocrinologic and Metabolic Drugs Advisory Committee met to discuss the resubmitted NDA, and the committee voted 18 to 4, with one abstention, that the available data demonstrate that the potential benefits of lorcaserin outweigh the potential risks when used long-term in a population of overweight and obese individuals. The FDA is not bound by the recommendations of its advisory committees, but is expected to consider their guidance during the review of the NDA. The PDUFA target date for lorcaserin is June 27, 2012. There is no assurance that we will receive approval for lorcaserin on the PDUFA target date or ever. The FDA may decide not to approve lorcaserin, may issue another CRL, may extend the PDUFA target date or may take various other actions. If lorcaserin is not approved for commercial sale or if its development or approval is delayed for any reason, our full investment in lorcaserin may be at risk, the market price of our common stock could decline significantly, we may not be able to generate sufficient revenues to continue our operations at the current level or become profitable, our reputation in the industry and in the investment community would likely be significantly damaged, additional funding may not be available to us or may not be available on terms we or others believe are favorable, our ability to enter into additional collaborative agreements would likely decrease significantly, we may face costs associated with stopping development of lorcaserin, and our business and financial condition could be materially adversely affected.

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Special Note Regarding Forward-Looking Statements

This prospectus supplement and the accompanying prospectus, including the documents that we incorporate by reference herein and therein, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements can generally be identified as such because the context of the statement will include words such as may, will, intend, plan, believe, anticipate, expect, predict, potential, continue, likely, unlikely or opportunity, the negative of these words or words of similar import. Similarly, statements that describe our future plans, strategies, intentions, expectations, objectives, goals or prospects are also forward-looking statements. Discussions containing these forward-looking statements may be found, among other places, in the Business and Management's Discussion and Analysis of Financial Condition and Results of Operations sections incorporated by reference from our most recent Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q for the quarterly periods ended subsequent to our filing of such Annual Report on Form 10-K, as well as any amendments thereto reflected in subsequent filings with the SEC. These forward-looking statements are based largely on our expectations and projections about future events and future trends affecting our business, and are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. The risks and uncertainties include, among others, those noted in Risk Factors above and those included in the documents that we incorporate by reference herein.

In addition, past financial and/or operating performance is not necessarily a reliable indicator of future performance and you should not use our historical performance to anticipate results or future period trends. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition. Except as required by law, we undertake no obligation to publicly revise our forward-looking statements to reflect events or circumstances that arise after the filing of this prospectus supplement or the filing of the accompanying prospectus or documents incorporated by reference herein and therein that include forward-looking statements.

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Use of Proceeds

We estimate that the net proceeds from the sale of the _____ shares of common stock that we are offering will be approximately \$ _____ million, or approximately \$ _____ million if the underwriters exercise in full their option to purchase up to _____ additional shares of common stock, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering for general corporate purposes, which may include expenses related to the commercialization of lorcaserin, if approved, as well as for research and development expenses, capital expenditures, working capital, and general and administrative expenses. We may also use a portion of the net proceeds to acquire or invest in complementary businesses, products and technologies. Although we have no specific agreements, commitments or understandings with respect to any acquisition or investment, we evaluate acquisition and investment opportunities and engage in related discussions with other companies from time to time.

The amounts and timing of these expenditures will depend on a number of factors, such as the timing and progress of our research and development efforts, the timing and progress of any partnering efforts, technological advances and the competitive environment for our product candidates. As of the date of this prospectus supplement, we cannot specify with certainty all of the particular uses for the net proceeds to us from this offering. Accordingly, our management will have broad discretion in the application of these proceeds. Pending application of the net proceeds as described above, we intend to temporarily invest the proceeds in short term, investment grade, interest-bearing instruments.

Dividend Policy

To date, we have not paid cash dividends on our common stock, and we are prohibited from doing so under the terms of the Facility Agreement, dated June 17, 2009, as amended, between us and Deerfield Private Design Fund, L.P., Deerfield Private Design International, L.P., Deerfield Partners, L.P., Deerfield International Limited, Deerfield Special Situations Fund, L.P., and Deerfield Special Situations Fund International Limited. We anticipate that regardless of the restrictions in the Facility Agreement, we will retain earnings, if any, to support operations and finance the growth and development of our business and, therefore, do not expect to pay cash dividends in the foreseeable future.

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Our net tangible book value as of March 31, 2012 was approximately \$33.5 million, or \$0.19 per share. Net tangible book value per share is determined by dividing our total tangible assets, less total liabilities, by the number of shares of our common stock outstanding as of March 31, 2012. Dilution with respect to net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the net tangible book value per share of our common stock immediately after this offering.

After giving effect to the sale of an aggregate of _____ shares of our common stock in this offering at the public offering price of \$ _____ per share and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, our as adjusted net tangible book value as of March 31, 2012 would have been approximately \$ _____ million, or \$ _____ per share. This represents an immediate increase in net tangible book value of \$ _____ per share to existing stockholders and immediate dilution in net tangible book value of \$ _____ per share to investors purchasing our common stock in this offering at the public offering price.

The following table illustrates this dilution on a per share basis:

Public offering price per share	\$
Net tangible book value per share as of March 31, 2012	\$ 0.19
Increase in net tangible book value per share attributable to new investors purchasing our common stock in this offering	

As adjusted net tangible book value per share on March 31, 2012, after giving effect to this offering

Dilution per share to new investors purchasing our common stock in this offering	\$
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If the underwriters exercise in full their option to purchase up to _____ additional shares of common stock at the public offering price of \$ _____ per share, the as adjusted net tangible book value after this offering would have been \$ _____ per share, representing an increase in net tangible book value of \$ _____ per share to existing stockholders and immediate dilution in net tangible book value of \$ _____ per share to investors purchasing our common stock in this offering at the public offering price.

The above discussion and table are based on 180,491,878 shares outstanding as of March 31, 2012, and exclude as of that date:

- n 8,631,410 shares of common stock issuable upon the exercise of outstanding warrants at an exercise price of \$1.745 per share;
- n 14,368,590 shares of common stock issuable upon the exercise of outstanding warrants at an exercise price of \$1.68 per share;
- n 1,965,418 shares of common stock issuable upon the exercise of outstanding warrants at an exercise price of \$4.34 per share;

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- n 1,467,405 shares of common stock issuable upon the exercise of outstanding warrants at an exercise price of \$8.76 per share;

- n 14,324,096 shares of common stock issuable upon the exercise of outstanding options at a weighted-average exercise price of \$4.31 per share;

- n 1,641,821 shares of common stock available for future issuance under our 2009 Long-Term Incentive Plan;
- n 487,132 shares of common stock available for future issuance under our 2009 Employee Stock Purchase Plan; and

- n 79,169 shares of common stock available for future issuance under our Deferred Compensation Plan.

To the extent that outstanding options or warrants outstanding as of March 31, 2012 have been or may be exercised or other shares issued, investors purchasing our common stock in this offering may experience further dilution. In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders.

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Subject to the terms and conditions set forth in the underwriting agreement dated May , 2012, among us and the underwriters named below, we have agreed to sell to the underwriters and the underwriters have severally agreed to purchase from us the number of shares of common stock indicated in the table below:

UNDERWRITERS	NUMBER OF SHARES OF COMMON STOCK
Jefferies & Company, Inc.	
Piper Jaffray & Co.	
BMO Capital Markets Corp.	
Total	

Jefferies & Company, Inc. and Piper Jaffray & Co. are acting as joint book-running managers of this offering and as representatives of the underwriters named above.

The underwriting agreement provides that the obligations of the several underwriters are subject to certain conditions precedent such as the receipt by the underwriters of officers' certificates and legal opinions and approval of certain legal matters by their counsel. The underwriting agreement provides that the underwriters will purchase all of the shares if any of them are purchased, except as described below under "Option to Purchase Additional Shares." If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated. We have agreed to indemnify the underwriters and certain of their controlling persons against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make in respect of those liabilities.

The underwriters have advised us that they currently intend to make a market in the shares. However, the underwriters are not obligated to do so and may discontinue any market-making activities at any time without notice. No assurance can be given as to the liquidity of the trading market for the shares.

The underwriters are offering the shares subject to their acceptance of the shares from us and subject to prior sale. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commission and Expenses

The underwriters have advised us that they propose to offer the shares of common stock to the public at the public offering price set forth on the cover page of this prospectus supplement and to certain dealers at that price less a concession not in excess of \$ per share. After the offering, the public offering price and concession may be reduced by the representatives. No such reduction will change the amount of proceeds to be received by us as set forth on the cover page of this prospectus supplement.

The following table shows the public offering price, the underwriting discounts and commissions that we are to pay the underwriters and the proceeds, before expenses, to us in connection with this offering. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	PER SHARE		TOTAL	
	WITHOUT OPTION TO PURCHASE ADDITIONAL SHARES	WITH OPTION TO PURCHASE ADDITIONAL SHARES	WITHOUT OPTION TO PURCHASE ADDITIONAL SHARES	WITH OPTION TO PURCHASE ADDITIONAL SHARES
Public offering price	\$	\$	\$	\$

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Underwriting discounts and commissions paid by us	\$	\$	\$	\$
Proceeds to us, before expenses	\$	\$	\$	\$

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We estimate expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately \$.

The underwriters have agreed to reimburse us for certain of our expenses incurred in connection with the offering in an amount of up to 0.5% of the aggregate gross proceeds from the offering.

Listing

Our shares are listed on The NASDAQ Global Select Market under the trading symbol ARNA.

Option to Purchase Additional Shares

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to an aggregate of additional shares of common stock at the public offering price set forth on the cover page of this prospectus supplement, less underwriting discounts and commissions. If the underwriters exercise this option, each underwriter will be obligated, subject to specified conditions, to purchase a number of additional shares proportionate to that underwriter's initial purchase commitment as indicated in the table above. This option may be exercised only if the underwriters sell more shares than the total number set forth on the cover page of this prospectus supplement.

No Sales of Similar Securities

We and each of our executive officers and directors have agreed, subject to specified exceptions (including the permitted sale of up to an aggregate of approximately 216,090 shares of our common stock by our executive officers, excluding our president and chief executive officer, subject to certain conditions set forth in the lock-up agreement), not to directly or indirectly:

- n offer, pledge, assign, encumber, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock owned either of record or beneficially (as defined in the Exchange Act), or
- n enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the common stock, or
- n publicly announce an intention to do any of the foregoing for a period of 90 days after the date of this prospectus without the prior written consent of Jefferies & Company, Inc. and Piper Jaffray & Co.

These restrictions terminate after the close of trading of the shares of common stock on and including the 90 days after the date of this prospectus supplement. However, subject to certain exceptions, in the event that either:

- n during the last 17 days of the 90-day restricted period, we issue an earnings release or material news or a material event relating to us occurs, or
- n prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day restricted period,

then in either case the expiration of the 90-day restricted period will be extended until the expiration of the 18-day period beginning on the date of the issuance of an earnings release or the occurrence of the material news or event, as applicable, unless Jefferies & Company, Inc. and Piper Jaffray & Co. waive, in writing, such an extension.

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Jefferies & Company, Inc. and Piper Jaffray & Co. may, in their sole discretion and at any time or from time to time before the termination of the 90-day period, without public notice, release all or any portion of the securities subject to lock-up agreements.

Stabilization

The underwriters have advised us that, pursuant to Regulation M under the Securities Exchange Act of 1934, as amended, certain persons participating in the offering may engage in transactions, including over-allotment,

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stabilizing bids, syndicate covering transactions or the imposition of penalty bids, which may have the effect of stabilizing or maintaining the market price of our common stock at a level above that which might otherwise prevail in the open market. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Establishing short sales positions may involve either covered short sales or naked short sales.

Covered short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares of common stock in this offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares of common stock or purchasing shares of common stock in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option to purchase additional shares.

Naked short sales are sales in excess of the option to purchase additional shares of common stock. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares of common stock in the open market after pricing that could adversely affect investors who purchase in this offering.

A stabilizing bid is a bid for the purchase of shares of common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the shares of common stock. A syndicate covering transaction is the bid for or the purchase of shares of common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with the offering. Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. A penalty bid is an arrangement permitting the underwriters to reclaim the selling concession otherwise accruing to a syndicate member in connection with the offering if the shares of common stock originally sold by such syndicate member are purchased in a syndicate covering transaction and therefore have not been effectively placed by such syndicate member.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. The underwriters are not obligated to engage in these activities and, if commenced, any of the activities may be discontinued at any time.

The underwriters may also engage in passive market making transactions in our common stock on the NASDAQ Global Select Market in accordance with Rule 103 of Regulation M during a period before the commencement of offers or sales of shares of our common stock in this offering and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker's bid, that bid must then be lowered when specified purchase limits are exceeded.

Electronic Distribution

This prospectus supplement and the accompanying prospectus in electronic format may be made available by e-mail or on the web sites or through online services maintained by one or more of the underwriters or their affiliates. In those cases, prospective investors may view offering terms online and may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares of common stock for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations. Other than this prospectus supplement and the accompanying prospectus in electronic format, the information on the underwriters' web sites and any information contained in any other web site maintained by any of the underwriters is not part of this prospectus supplement or the accompanying prospectus, has not been approved and/or endorsed by us or the underwriters and should not be relied upon by investors.

Affiliations

Certain of the underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment

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management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and certain of their affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and certain of their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve our securities and/or instruments. The underwriters and certain of their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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Notice to Investors

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (as defined below) (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, or the Relevant Implementation Date, an offer of our common stock to the public may not be made in that Relevant Member State prior to the publication of a prospectus in relation to our common stock which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that an offer to the public in that Relevant Member State of any shares of our common stock may be made at any time under the following exemptions under the Prospectus Directive if they have been implemented in the Relevant Member State:

- a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;
- c) to fewer than 100 natural or legal persons per Relevant Member State (other than qualified investors as defined in the Prospectus Directive); or
- d) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of our common stock shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of our common stock to the public in relation to any shares of our common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and our common stock to be offered so as to enable an investor to decide to purchase or subscribe for our common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Shares of our common stock may not be offered or sold and will not be offered or sold to any persons in the United Kingdom other than to persons whose ordinary activities involve them acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or otherwise in circumstances which have not resulted or will not result in an offer to the public in the United Kingdom within the meaning of the Financial Services and Markets Act 2000, or the FSMA.

In addition, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of shares of our common stock may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to us. Without limitation to the other restrictions referred to herein, this prospectus supplement and the accompanying prospectus are directed only at (1) persons outside the United Kingdom or (2) persons who:

- a) are qualified investors as defined in section 86(7) of FSMA, being persons falling within the meaning of article 2.1(e)(i), (ii) or (iii) of the Prospectus Directive; and
- b) are either persons who fall within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or Order, or are persons who fall within article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the Order; or
- c) to whom it may otherwise lawfully be communicated in circumstances in which Section 21(1) of the FSMA does not apply.

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Without limitation to the other restrictions referred to herein, any investment or investment activity to which this prospectus supplement and the accompanying prospectus relate is available only to, and will be engaged in only with, such persons, and persons within the United Kingdom who receive this communication (other than persons who fall within (2) above) should not rely or act upon this communication.

Italy

This prospectus supplement and the accompanying prospectus have not been and will not be filed with or cleared by the Italian securities exchange commission (Commissione Nazionale per le società e la Borsa, or the CONSOB) pursuant to Legislative Decree No. 58 of 24 February 1998 (as amended, the Finance Law) and to CONSOB Regulation No. 11971 of 14 May 1999 (as amended, the Issuers Regulation). Accordingly, copies of this prospectus supplement and the accompanying prospectus or any other document relating to our common stock may not be distributed, made available or advertised in Italy, nor may our common stock be offered, purchased, sold, promoted, advertised or delivered, directly or indirectly, to the public other than (i) to Professional Investors (such being the persons and entities as defined pursuant to article 31(2) of CONSOB Regulation No. 11522 of 1 July 1998, as amended, the Intermediaries Regulation) pursuant to article 100 of the Finance Law; (ii) to prospective investors where the offer of our common stock relies on the exemption from the investment solicitation rules pursuant to, and in compliance with, the conditions set out by article 100 of the Finance Law and article 33 of the Issuers Regulation, or by any applicable exemption; provided that any such offer, sale, promotion, advertising or delivery of our common stock or distribution of this prospectus supplement and the accompanying prospectus, or any part thereof, or of any other document or material relating to our common stock in Italy is made: (a) by investment firms, banks or financial intermediaries authorized to carry out such activities in the Republic of Italy in accordance with the Finance Law, the Issuers Regulation, Legislative Decree No. 385 of 1 September 1993, as amended, the Intermediaries Regulation, and any other applicable laws and regulations; and (b) in compliance with any applicable notification requirement or duty which may, from time to time, be imposed by CONSOB, Bank of Italy or by any other competent authority.

Germany

Any offer or solicitation of securities within Germany must be in full compliance with the German Securities Prospectus Act (Wertpapierprospektgesetz, or the WpPG). The offer and solicitation of securities to the public in Germany requires the publication of a prospectus that has to be filed with and approved by the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, or the BaFin). This prospectus supplement and the accompanying prospectus have not been and will not be submitted for filing and approval to the BaFin and, consequently, will not be published. Therefore, this prospectus supplement and the accompanying prospectus do not constitute a public offer under the WpPG. This prospectus supplement, the accompanying prospectus and any other document relating to our common stock, as well as any information contained therein, must therefore not be supplied to the public in Germany or used in connection with any offer for subscription of our common stock to the public in Germany, any public marketing of our common stock or any public solicitation for offers to subscribe for or otherwise acquire our common stock. This prospectus supplement, the accompanying prospectus and other offering materials relating to the offer of our common stock are strictly confidential and may not be distributed to any person or entity other than the designated recipients hereof.

France

This prospectus supplement and the accompanying prospectus have not been prepared in the context of a public offering of financial securities in France within the meaning of Article L.411-1 of the French Code Monétaire et Financier and Title I of Book II of the Règlement Général of the Autorité des marchés financiers, or the AMF, and therefore has not been and will not be filed with the AMF for prior approval or submitted for clearance to the AMF. Consequently, the shares of our common stock may not be, directly or indirectly, offered or sold to the public in France and offers and sales of the shares of our common stock may only be made in France to qualified investors (investisseurs qualifiés) acting for their own, as defined in and in accordance with Articles L.411-2 and D.411-1 to D.411-4, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Code Monétaire et Financier. None of this prospectus supplement, the accompanying prospectus or any other offering material may be released, issued or distributed to the public in France or used in connection with any offer for subscription on sale of the shares of our

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common stock to the public in France. The subsequent direct or indirect retransfer of the shares of our common stock to the public in France may only be made in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French Code Monétaire et Financier.

Sweden

This is not a prospectus under, and has not been prepared in accordance with the prospectus requirements provided for in, the Swedish Financial Instruments Trading Act (lagen (1991:980) om handel med finansiella instrument) nor any other Swedish enactment. Neither the Swedish Financial Supervisory Authority nor any other Swedish public body has examined, approved, or registered this document.

Switzerland

The shares of our common stock may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or SIX, or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares of our common stock or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Issuer, the shares of our common stock have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares of our common stock will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA and the offer of shares of our common stock has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes, or CISA. The investor protection afforded to \$(1,739) \$(1,297) \$(417)

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

	Six months ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(1,937)	\$(1,639)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	687	847
Marketable securities	3	(88)
Change in fair value of derivatives, net	(30)	(6)
Change in deferred taxes, net	(127)	(389)
Accrued interest and exchange rate differences on loans	207	449
Stock-based compensation	190	172
Decrease (increase) in trade account receivables	(1,315)	1,101
Decrease in inventories	1,450	155
Increase (decrease) in accrued severance pay, net	31	(3)
Decrease (increase) in other accounts receivables	185	(9)
Decrease in trade accounts payables	(2,101)	(2,122)
Increase (decrease) in other accounts payables	5	(294)
Net cash used in operating activities	\$(2,752)	\$(1,826)

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

	Six months ended June 30,	
	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(100)	(184)
Restricted cash	(482)	(52)
Marketable securities	666	(39)
Net cash provided by (used in) investing activities	\$84	\$(275)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short term bank credit	\$4,731	\$2,823
Long term bank loan	-	59
Repayment of short term loans	(2,228)	(2,175)
Repayment of long term bank loans	(367)	(473)
Repayment of notes	-	(1,000)
Net cash provided by (used in) financing activities	\$2,136	\$(766)
NET CASH DECREASE IN CASH AND CASH EQUIVALENTS	(532)	(2,867)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,361	4,179
TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	44	301
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1,873	\$1,613

NOTE 1 — DESCRIPTION OF BUSINESS

Overview

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

We operate through two Israel-based companies, Enertec Systems 2001 Ltd (“Enertec”), our wholly-owned subsidiary, and Micronet Ltd (“Micronet”), in which we held 62.9% as of June 30, 2016 and is controlled by us.

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

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

B. Standby Equity Distribution Agreement

On June 30, 2016, we entered into a Standby Equity Distribution Agreement (the “SEDA”) with YA II PV Ltd. (“YA II”), a Cayman Island exempt limited partnership and an affiliate of Yorkville Advisors Global, LLC, for the sale of up to \$2.39 million of shares of the Company’s common stock, par value \$0.001 per share, over a three-year commitment period. Under the terms of the SEDA, the Company may from time to time, in its discretion, sell newly-issued shares of its common stock to YA II at a discount to market of 1.5%. The Company expects to issue shares of common stock under the SEDA pursuant to its effective Registration Statement on Form S-3 (Registration No. 196760). The

Company is not obligated to utilize any of the funds available under the SEDA and there are no minimum commitments or minimum use penalties. The total amount of funds that ultimately can be raised under the SEDA over the three-year term will depend on the market price for the Company's common stock and the number of shares actually sold. The SEDA does not impose any restrictions on the Company's operating activities. During the term of the SEDA, YA II is prohibited from engaging in any short selling or hedging transactions related to the Company's common stock.

C. Note Purchase Agreement

On June 30, 2016, the Company and our wholly-owned subsidiary Enertec Electronics Ltd (collectively, the "Borrowers") entered into a Note Purchase Agreement with YA II (the "Note Purchase Agreement"), whereby YA II will purchase \$600 of notes from the Borrowers (the "Notes"). The Company received a total of \$600 on July 1st, 2016. The outstanding principal balance of the Notes shall bear interest at 7% per annum. On a quarterly basis commencing on October 10, 2016, the Borrowers shall make payments of \$150 of principal plus accrued interest.

All amounts payable are due on July 10, 2017. Upon the occurrence of an Event of Default under the Notes, all amounts payable may be due immediately.

In connection with the Note Purchase Agreement, the Company agreed to grant to YA II a five-year warrant (the "Warrant") to purchase 66,000 shares of the Company's common stock at an exercise price of \$4.30 per share. The Warrant is exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(a)(2) thereof.

NOTE 2 - BASIS OF PRESENTATION AND CONSOLIDATION

Basis of Presentation

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission, or SEC. Accordingly, they do not contain all information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary (consisting only of normal recurring accruals) to present the financial position of the Company as of June 30, 2016 and the results of operations and cash flows for the periods presented. The results of operations for the periods ended June 30, 2016 are not necessarily indicative of the operating results for the full fiscal year or any future period. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The Company’s accounting policies are described in the Notes to Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2015, and updated, as necessary, in this Quarterly Report on Form 10-Q.

All the amounts included in the notes are denominated in thousand US Dollars.

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 ceased. Intercompany transactions and balances are eliminated upon consolidation.

Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board (the “FASB”) “FASB” issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10) (“Accounting Standards Update (“ASU”) ASU 2016-01”), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company beginning in its first quarter of 2019. We are currently assessing the potential impact of this ASU on our consolidated financial position and results of operations.

In February 2016, the FASB issued ASU No. 2016-02, which supersedes the lease accounting guidance in ASC 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. We are currently assessing the potential impact of this ASU on our consolidated financial position and results of operations.

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

Recent Accounting Pronouncements (Cont.)

In March 2016, the FASB issued ASU No. 2016-09, which revises the guidance in ASC 718, Compensation - Stock Compensation, and will change how companies account for certain aspects of share-based payments to employees, including the income tax impact, classification on the statement of cash flows and forfeitures. The guidance is effective for reporting periods (interim and annual) beginning after December 15, 2017, for public companies. Early adoption is permitted. We are currently assessing the potential impact of this ASU on our consolidated financial position and results of operations.

NOTE 3 – FAIR VALUE MEASUREMENTS

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

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

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

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

Items carried at fair value as of June 30, 2016 and December 31, 2015, are summarized below:

**Fair value measurements using
input type
June 30, 2016**

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$1,873	\$ -	\$ -	\$1,873
Restricted cash	4,616	-	-	4,616
Marketable securities	4,974	-	-	4,974
Derivative assets	-	6	-	6
Derivative liabilities - Phantom option	-	(11)	-	(11)
	\$11,463	\$(5)	\$ -	\$11,458

**Fair value measurements using
input type
December 31, 2015**

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$2,361	\$ -	\$ -	\$2,361
Restricted cash	4,135	-	-	4,135
Marketable securities	5,643	-	-	5,643
Derivative liabilities - Phantom option	-	(41)	-	(41)
	\$12,139	\$(41)	\$ -	\$12,098

NOTE 4 – INVENTORIES

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

	June 30, 2016	December 31, 2015
Raw materials	\$5,093	\$ 6,303
Work in process	914	1,154
	\$6,007	\$ 7,457

NOTE 5 – SEGMENTS

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

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

	Six months ended June 30, 2016		
	Defense	Mobile and resource aerospace management	Consolidated
Revenues from external customers	\$4,853	\$ 8,350	\$ 13,203
Segment operating income (loss)	24	(1)(979)	(955)
Non allocated expenses			(741)
Finance expenses and other			(261)
Consolidated loss before provision for income taxes			\$ (1,957)

	Six months ended June 30, 2015	
	Defense	Consolidated

	aerospace	and Mobile resource management	
Revenues from external customers	\$3,917	\$ 7,509	\$ 11,426
Segment operating loss	(50)	(2)(947)	(997)
Non allocated expenses			(548)
Finance expenses			(261)
Consolidated loss before provision for income taxes			\$ (1,806)

(1) Includes \$460 of intangible assets amortization, derived from acquisitions.

(2) Includes \$607 of intangible assets amortization, derived from acquisitions.

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

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other Federal securities laws, and is subject to the safe-harbor created by such Act and laws. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or “continue,” the negative of 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;

Leveraging our experience and other assets we possess to enhance Enertec’s (as defined below) product offerings;

Levels of research and development costs in the future;

Continuing control of at least a majority of Micronet's share capital;

The organic and non-organic growth of our business;

Our financing needs; and

The sufficiency of our capital resources.

Our business and operations are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained or implied in this report. Except as required by law, we assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. Further information on potential factors that could affect our business is described under the heading “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. Readers are also urged to carefully review and consider the various disclosures we have made in that report. The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

Overview

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

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

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

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

On February 18, 2016, we entered into an Asset Purchase Agreement, or the Asset Purchase Agreement, with Novatel Wireless, Inc., or the Seller, pursuant to which we agreed to acquire certain assets and liabilities of the Seller used in the operation of its telematics hardware business, or the Telematics Business Acquisition. The Asset Purchase Agreement provided that the Telematics Business Acquisition would close on or before March 31, 2016, subject to certain extensions and termination provisions. On April 11, 2016, the Seller notified us that it was terminating the Asset Purchase Agreement due to the failure to meet such closing deadline and certain conditions required to extend it, and demanded a termination fee equal to \$250 thousand pursuant to the terms of the Asset Purchase Agreement. On May 3, 2016, the Seller filed a complaint in the Superior District Court of the State of Delaware naming us as the defendant. The complaint alleges, among other things, that we breached the terms of the Asset Purchase Agreement and seeks, among other things, the payment of the termination fee equal to \$250 thousand plus interest as well as all costs and expenses associated with the commencement of the lawsuit. On June 27, 2016 we filed our answer to the complaint in which we rejected the claims made by Novatel Wireless. The suit is currently in its early stages of discovery and exchange of interrogatories. However, we have made a \$250 thousand provision in our financial statements for any claims relating to such litigation.

Results of Operations

(Dollars and NIS in thousands)

Three and Six Months Ended June 30, 2016 Compared to Three and Six Months Ended June 30, 2015

Revenues for the three and six months ended June 30, 2016 were \$6,721 and \$13,203, respectively, compared to \$5,747 and \$11,426 for the three and six months ended June 30, 2015, respectively. This represents an increase of \$974 and \$1,777, or an increase of 17% and 16%, for the three and six months ended June 30, 2016, respectively, mainly due to our continuing marketing and sales penetration.

Total revenues related to the aerospace and defense segment for the three and six months ended June 30, 2016 were \$2,322 and \$4,853, respectively, as compared to \$1,884 and \$3,917, respectively, for the three and six months ended June 30, 2015. This represents an increase of \$438 and \$936, respectively, or 23% and 24% respectively, for the three and six months ended June 30, 2016. The increase is mainly due to progress in various projects.

Total revenues related to the MRM segment for the three and six months ended June 30, 2016 were \$4,399 and \$8,350, respectively, as compared to \$3,863 and \$7,509, for the three and six months ended June 30, 2015, respectively. This represents an increase of \$536 and \$ 841 or 14% and 11% for the three and six months ended June 30, 2016, respectively, mainly due to the continuation of our marketing and sales penetration and an increase of our backlog.

Gross profit decreased by \$276 and increased by \$52, to \$1,558 and \$3,637, and represents 23% and 28% of the revenues for the three and six months ended June 30, 2016, respectively. This is in comparison to gross profit of \$1,834 and \$3,585 which represented 32% and 31% of the revenues for the three and six months ended June 30, 2015.

Micronet's gross profit decreased from 35% and 35% in the three and six months ended June 30, 2015 to 24% and 29% for the three and six months ended June 30, 2016, respectively. The decreases are mainly due to different product mixes and write offs of slow moving inventory.

Enertec's gross profit decreased from 26% and 24% in the six months ended June 30, 2015 to 21% and 25% for the three and six months ended June 30, 2016, respectively. The changes are mainly a result of changes in product mix.

Selling and Marketing

Selling and marketing costs are part of operating expenses. Selling and marketing costs for the three and six months ended June 30, 2016 were \$478 and \$836, respectively, as compared to \$350 and \$819 for the three and six months ended June 30, 2015, respectively. This represents an increase of \$128 and \$17, or 36% and 2%, for the three and six months ended June 30, 2016, respectively. The increases are mainly due to increases of sales and sales support employees.

General and Administrative

General and administrative costs are part of operating expenses. General and administrative costs for the three and six months ended June 30, 2016 were \$1,518 and \$2,654, respectively, compared to \$1,127 and \$2,238 for the three and six months ended June 30, 2015, respectively. This represents an increase of \$391 and \$416, or 34% and 19%, for the three and six months ended June 30, 2016, respectively. The increase is mainly due to a onetime \$250 provision relating to the Novatel Wireless, Inc. lawsuit.

Research and Development Costs

Research and development costs are part of operating expenses. Research and development costs, which include mainly wages, materials and sub-contractors, for the three and six months ended June 30, 2016 were \$683 and \$1,383, respectively, as compared to \$723 and \$1,466 for the three and six months ended June 30, 2015, respectively. This represents a decrease of \$40 and \$83, or 6% and 6%, for the three and six months ended June 30, 2016, respectively.

Loss from operations

Our loss from operations for the three and six months ended June 30, 2016 were \$1,353 and \$1,696, or 20% and 13% of the revenues, compared to loss from operations of \$671 and \$1,545, or 12% and 14% of the revenues, for the three and six months ended June 30, 2015 respectively. The increase in loss from operations is mainly a result of the \$250 provision and a decrease in the gross profit as described above.

Financial Expenses, net

Financial expenses, net for the three and six months ended June 30, 2016 were \$131 and \$261, compared to expenses of \$169 and \$261 for the three and six months ended June 30, 2015, respectively. This represents a decrease of \$38 and \$0, or 23% and 0%, for the three and six months ended June 30, 2016, respectively.

Net loss attributed to Micronet Enertec Technologies, Inc.

Our net loss attributed to Micronet Enertec Technologies, Inc. was \$1,219 and \$1,558 in the three and six months ended June 30, 2016, respectively, compared to net loss of \$588 and \$ 1,294 in the three and six months ended June 30, 2015, respectively. This represents an increase in net loss of \$631 and \$264, or 107% and 20%, as compared to the same periods last year. The increase in net loss of the three and six months periods are attributed primarily to \$250 provision and a decrease in the gross profit as described above.

Non-GAAP Financial Measures

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

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

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

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

Amortization of acquired intangible assets - We are required to amortize the intangible assets, included in our GAAP financial statements, related to the Transaction and the Acquisition. The amount of an acquisition's purchase price allocated to intangible assets and term of its related amortization are unique to these transactions. The amortization of acquired intangible assets are non-cash charges. We believe that such charges do not reflect our operational performance. Therefore, we exclude amortization of acquired intangible assets to provide investors with a consistent basis for comparing pre- and post-transaction operating results.

Stock-based compensation - The 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.

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

Six months ended**June 30,**

(Dollars in thousands,
other than share and per
share amounts)

	2016	2015
GAAP net loss attributable to Micronet Enertec	\$(1,558)	\$(1,294)
Amortization of acquired intangible assets	289	381
Stock-based compensation	190	172
Income tax-effect of above non-GAAP adjustments	(3)	(17)
Total Non-GAAP net loss attributable to Micronet Enertec	\$(1,082)	\$(758)
Non-GAAP net loss per share attributable to Micronet Enertec	\$(0.18)	\$(0.13)
Shares used in per share calculations	5,871,039	5,857,951
GAAP net loss per share attributable to Micronet Enertec	\$(0.27)	\$(0.22)
Shares used in per share calculations	5,871,039	5,857,951

Three months ended**June 30,**

(Dollars in thousands,
other than share and per
share amounts)

	2016	2015
GAAP net loss attributable to Micronet Enertec	\$(1,219)	\$(588)
Amortization of acquired intangible assets	146	192
Stock-based compensation	108	103
Income tax-effect of above non-GAAP adjustments	(2)	(8)
Total Non-GAAP net loss attributable to Micronet Enertec	\$(967)	\$(302)
Non-GAAP net loss per share attributable to Micronet Enertec	\$(0.16)	\$(0.05)
Shares used in per share calculations	5,876,921	5,859,675
GAAP net loss per share attributable to Micronet Enertec	\$(0.21)	\$(0.10)
Shares used in per share calculations	5,876,921	5,859,675

Liquidity and Capital Resources

(Dollars and NIS in Thousands)

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

As of June 30, 2016, our total cash and cash equivalents, restricted cash and marketable securities balance was \$11,463 (of which marketable securities amounted to \$4,974), as compared to \$12,139 (of which marketable securities amounted to \$5,643) as of December 31, 2015. This reflects a decrease of \$676 in cash and cash equivalents, restricted cash and marketable securities. The decrease in cash and cash equivalents is primarily a result of repayments of loans to banks and others.

On September 2, 2015, Enertec entered into a Credit Line Agreement, or the Credit Line Agreement, with a financing firm, or the Financing Firm, pursuant to which the Financing Firm agreed to grant Enertec a credit line for the financing of certain payables of Enertec. The maximum aggregate amount of the financing eligible under the Credit Line Agreement is \$675 and up to 85% of each invoice. The financing pursuant to the Credit Line Agreement is at an annual rate of Prime plus 1.75%. On June 2, 2016, the Credit Line Agreement was extended and will expire on April 30, 2017. As of June 30, 2016, Enertec had financed \$666 pursuant to the Credit Line Agreement.

On December 30, 2015, the Company entered into a Loan Agreement, or the Meydan Loan, with Meydan, pursuant to which Meydan agreed to loan the Company \$750 on certain terms and conditions. The Meydan loan bears interest at the rate of Libor plus 8% per annum and is due and payable in 4 equal installments beginning on July 10, 2016. As of June 30, 2016, the balance on the Meydan Loan was \$781.

On July 8, 2016 the Company amended the Meydan Loan Agreement such that the note shall be repaid in 4 equal installments on October 10, 2016, January 10, 2017, April 10, 2017 and July 10, 2017.

In connection with our acquisition of the Vehicle Business, Micronet entered into a loan agreement, or the FIBI Loan Agreement, with the First International Bank of Israel, or FIBI. Under this agreement, FIBI loaned Micronet \$4,850 for the financing of this acquisition. Pursuant to the terms of the FIBI Loan Agreement, \$2,425 of the loan bears interest at a quarterly adjustable rate of Prime plus 1.5 percent (3.75% percent as of the date of the loan), or the Long Term Portion. The Long Term Portion plus interest is due and payable in twelve equal consecutive quarterly installments beginning on August 29, 2014. The balance of the loan in the amount of \$2,425 bears interest at a quarterly adjustable rate of Prime plus 1.2% (3.45% as of the date of the loan), or the Short Term Portion. The Short Term Portion is due and payable within one year from the date of the loan, and the interest on the Short Term Portion is due and payable every quarter beginning on August 29, 2014. The loan is secured mainly by a floating charge against Micronet's assets and a mortgage on a building owned by Micronet. The loan is subject to customary covenants, terms, conditions, events of default and certain pre-payment provisions. As of May 28, 2015, Micronet repaid the Short Term Portion and borrowed a new loan for the same amount and on the same terms as the prior Short Term Portion for a period of six months ending on November 29, 2015.

As of November 29 2015, Micronet repaid the Short Term Portion and borrowed a new loan for the same amount and on the same terms as the prior Short Term Portion for a period of six months ending on May 29, 2016 As of May 29 2016, Micronet repaid the Short Term Portion and borrowed a new loan for the same amount and on the same terms as the prior Short Term Portion for a period of six months ending on November 29, 2016. As of June 30, 2016, the balance on this loan (the Long Term Portion and the Short Term Portion) was approximately \$4,117 and the interest rates were Prime plus 1.2% and Prime plus 1.5% for the Short Term Portion and the Long Term Portion, respectively.

On June 17, 2014, Enertec Electronics 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 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; (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 of the Mercantile Loan bears interest at a quarterly adjustable rate of Prime plus 2.45%, or the Mercantile Long Term Portion, and (2) approximately \$581 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 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 June 30, 2016, the balance on the Mercantile Loan was \$2,748 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, Enertec 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 NIS 4,000, (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. In the event the Mercantile Loan is repaid prior to the third anniversary of the Mercantile Loan, the gain to Mercantile Bank resulting from the Phantom Stock Option shall not exceed NIS 2,000. 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 June 30, 2016, the fair value of this Phantom Stock Option was \$11.

In addition, on June 30, 2016, we and our wholly-owned subsidiary Enertec Electronics Ltd., or the Borrowers, entered into a Note Purchase Agreement, or the Note Purchase Agreement, with YA II PV Ltd., or YA II, whereby YA II agreed to purchase \$600 of notes from the Borrowers, or the Notes. The outstanding principal balance of the Notes bear interest at 7% per annum. On a quarterly basis commencing on October 10, 2016, the Borrowers are required to make payments of \$150 of principal plus accrued interest. All amounts payable are due on July 10, 2017. Upon the occurrence of an Event of Default under the Notes, all amounts payable may be due immediately. In conjunction with the Note Purchase Agreement we agreed to grant to YA II a 5 year warrant to purchase 66,000 shares of our common stock at an exercise price of \$4.30 per share.

As of June 30, 2016, our total current assets were \$32,675, as compared to \$33,534 at December 31, 2015. The decrease is mainly due to a decrease in cash and cash equivalent and marketable securities and a decrease in inventory.

Our trade accounts receivable at June 30, 2016 were \$13,669 as compared to \$12,353 at December 31, 2015. The increase is primarily due an increase in revenues for the six months ended June 30, 2016.

As of June 30, 2016, our working capital was \$11,674, as compared to \$13,291 at December 31, 2015. The decrease in the working capital is primarily due to the decrease in cash and cash equivalents and due to an increase in short-term bank loans.

As of June 30, 2016, our total debt was \$16,746 as compared to \$14,402 at December 31, 2015.

Our bank and other debt is composed of short-term loans amounting to \$14,920 as of June 30, 2016 compared to \$12,049 at December 31, 2015, and long-term loans amounting to \$1,826 as of June 30, 2016 compared to \$2,353 at December 31, 2015. The increase in short-term loans caused an increase in the restricted cash that stands as a collateral for those loans.

Our debt includes our bank debt described above, a working capital credit facility - a loan from Meydan and the Credit Line Agreement:

Our bank debt is composed of short-term loans to Enertec Electronics Ltd, Enertec and Micronet amounting to \$13,692 as of June 30, 2016 compared to \$11,012 at December 31, 2015, and long-term loans amounting to \$1,638 as of June 30, 2016 compared to \$1,978 at December 31, 2015. The short-term loans bear interest rates between Israeli prime (currently 1.60%) plus 0.7% to 2.45%. The long-term loans have maturity dates between May 2017 and July 2019 and bear interest rates between Israeli Prime plus 1.25% to 2.45%.

Enertec has covenanted under its bank loans at June 30 and December 31 of each year, among other things that (1) its shareholder's equity according to its financial statements will not fall below NIS 17,000, and (2) its shareholder's equity will not be lower than 30% of the total liabilities on its balance sheet. Enertec has not met all of its bank covenants as of June 30, 2016; As a result the Company reclassified its loans from long-term to short-term liabilities.

Enertec Electronics has covenanted under its bank loan mainly that the Company will present separate financial statements equity of not less than 32.5% of total assets.

In addition, Micronet has undertaken under its bank loan documents the following primary financial covenants: (1) the aggregate amount of deposits and marketable securities will not be less than 85% of the aggregate amount of the loans; (2) a minimum equity of NIS 30,000 and (3) total solvency ratio of not less than 30%. Micronet has met all of its bank covenants as of June 30, 2016.

On September 2, 2015, Enertec entered into a Credit Line Agreement with the Financing Firm, pursuant to which the Financing Firm agreed to grant Enertec a credit line for the financing of certain payables of Enertec. The maximum aggregate amount of the financing eligible under the Credit Line Agreement is \$675 and up to 85% of each invoice. The financing pursuant to the Credit Line Agreement is at an annual rate of Prime plus 1.75%. On June 2, 2016 the Credit Line Agreement was extended and will expire on April 30, 2017. As of June 30, 2016, Enertec had financed \$666 pursuant to the Credit Line Agreement.

On June 30, 2016, we and our wholly-owned subsidiary Enertec Electronics Ltd., or the Borrowers, entered into the Note Purchase Agreement with YA II, whereby YA II agreed to purchase \$600 of notes from the Borrowers. The outstanding principal balance of the Notes bear interest at 7% per annum. On a quarterly basis commencing on October 10, 2016, the Borrowers are required to make payments of \$150 of principal plus accrued interest. All amounts payable are due on July 10, 2017. Upon the occurrence of an Event of Default under the Notes, all amounts payable may be due immediately.

Financing Needs

Although we currently do not have any material commitments for capital expenditures, we expect our capital requirements to increase over the next several years as we continue to support the organic and non-organic growth of our business. Among other activities, we plan to develop, manufacture and market larger-scale solutions, support our growing manufacturing and finance needs, continue the development and testing of our suite of products and systems, increase management, marketing and administration infrastructure, and embark on developing in-house business capabilities and facilities. Our future liquidity and capital funding requirements will depend on numerous factors, including but not limited to (1) the levels and costs of our research and development initiatives, (2) the cost of hiring, training and certifying additional highly skilled professionals (mainly engineers and technicians), and maintaining our management including sales and marketing personnel to promote our products, and (3) the cost and timing of the expansion of our development, manufacturing and marketing efforts.

The Company expects to pay off the current portion of certain bank loans in the amount \$1,329 and the Meydan Loan in the amount of \$562 using its cash flow from operations or possibly additional debt or equity financings.

On June 30, 2016, we entered into a SEDA, with YA II for the sale of up to \$2,390 of shares of our common stock over a three-year commitment period. Under the terms of the SEDA, we may from time to time, in our discretion, sell newly-issued shares of our common stock to YA II at a discount to market of 1.5%. In that regard, we have filed a prospectus supplement to our Registration Statement on Form S-3 (Registration No. 333-196760) and expect to issue shares of our common stock under the SEDA pursuant to such registration statement. We are not obligated to utilize any of the funds under the SEDA and there are no minimum commitments or minimum use penalties. The total amount of funds that ultimately can be raised under the SEDA over the three-year term will depend on the market price for our common stock and the number of shares actually sold. The SEDA does not impose any restrictions on our operating activities. During the term of the SEDA, YA II is prohibited from engaging in any short selling or hedging transactions related to our common stock. As of the date hereof, we have not yet issued any shares pursuant to the SEDA.

As noted above, the Company has an effective Form S-3 registration statement, filed under the Securities Act of 1933, as amended, with the Securities and Exchange Commission using a “shelf” registration process. Under this shelf registration process, the Company may, from time to time, sell common stock, warrants or units in one or more offerings up to a total dollar amount of \$30,000, of which \$2,390 has been reserved for shares to be issued pursuant to the SEDA.

Based on our current business plan, we anticipate that our existing cash balances and cash generated from future sales will be sufficient to permit us to conduct our operations and to carry out our contemplated business plans for the next twelve months. However, we believe that we may need to raise additional funds if we want to materially decrease our dependence on our existing cash and other liquidity resources. Currently, the only external sources of liquidity are our banks, and we may seek additional financing from them or through securities offerings, to expand our operations, using new capital to develop new products, enhance existing products or respond to competitive pressures. However, we may also undertake additional debt or equity financings (including sales of common stock, warrants or units under our shelf registration statement) to better enable us to grow and meet our future operating and capital requirements. There is no assurance that we will be able to consummate such offerings on favorable terms or at all.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect that is material to investors on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures about Market Risks.

Not applicable

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company carried out an evaluation with the participation of the Company’s management, including Mr. David Lucatz, the Company’s Chief Executive Officer, and Mrs. Moran Amran, the Company’s controller (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 June 30, 2016. 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 June 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II- OTHER INFORMATION**Item 1. Legal Proceedings.**

On February 18, 2016, we entered into an Asset Purchase Agreement, or the Asset Purchase Agreement, with Novatel Wireless, Inc., or the Seller, pursuant to which we agreed to acquire certain assets and liabilities of the Seller used in the operation of its telematics hardware business, or the Telematics Business Acquisition. The Asset Purchase Agreement provided that the Telematics Business Acquisition would close on or before March 31, 2016, subject to certain extensions and termination provisions. On April 11, 2016, the Seller notified us that it was terminating the Asset Purchase Agreement due to the failure to meet such closing deadline and certain conditions required to extend it, and demanded a termination fee equal to \$250 thousand pursuant to the terms of the Asset Purchase Agreement. On May 3, 2016, the Seller filed a complaint in the Superior District Court of the State of Delaware naming us as the defendant. The complaint alleges, among other things, that we breached the terms of the Asset Purchase Agreement and seeks, among other things, the payment of the termination fee equal to \$250 thousand plus interest as well as all costs and expenses associated with the commencement of the lawsuit. On June 27, 2016, we filed our answer to the complaint in which we rejected the claims made by Seller. The suit is currently in its early stages of discovery and exchange of interrogatories. We have made a \$250 thousand provision in our financial statements for any claims relating to such litigation.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Composite Copy of the Certificate of Incorporation of the Company, as amended to date (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 (File No. 333-199752), filed with the Securities and Exchange Commission on October 31, 2014.).
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.5 of Amendment No. 2 to our Registration Statement on Form S-1 (File No. 333-185470), filed with the Securities and Exchange Commission on March 18, 2013).
4.1	Common Stock Purchase Warrant (Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2016).
10.2	Standby Equity Distribution Agreement, dated as of June 30, 2016, between Micronet Enertec Technologies, Inc. and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2016).
10.3	

Note Purchase Agreement, dated as of June 30, 2016, between Micronet Enertec Technologies, Inc., Enertec Electronics Ltd and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2016).

31.1* Rule 13a-14(a) Certification of Chief Executive Officer.

31.2* Rule 13a-14(a) Certification of Chief Financial Officer.

32.1** Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.

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

101* The following materials from Micronet Enertec Technologies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, 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

SIGNATURES

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

MICRONET ENERTEC

TECHNOLOGIES, INC.

Date: August 11, 2016 By: /s/ David Lucatz
Name: David Lucatz
Title: Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

Date: August 11, 2016 By: /s/ Moran Amran
Name: Moran Amran
Title: Controller
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description
3.1	Composite Copy of the Certificate of Incorporation of the Company, as amended to date (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 (File No. 333-199752), filed with the Securities and Exchange Commission on October 31, 2014.).
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.5 of Amendment No. 2 to our Registration Statement on Form S-1 (File No. 333-185470), filed with the Securities and Exchange Commission on March 18, 2013).
4.1	Common Stock Purchase Warrant (Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2016).
10.2	Standby Equity Distribution Agreement, dated as of June 30, 2016, between Micronet Enertec Technologies, Inc. and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2016).
10.3	Note Purchase Agreement, dated as of June 30, 2016, between Micronet Enertec Technologies, Inc., Enertec Electronics Ltd and YA II PN, Ltd. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2016).
31.1*	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
101*	The following materials from Micronet Enertec Technologies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, 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

