ACORN ENERGY, INC.
Form 10-Q
November 07, 2012

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

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

Commission file number: 0-19771

ACORN ENERGY, INC.
(Exact name of registrant as specified in charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-2786081 (I.R.S. Employer Identification No.)
3903 Centerville Road, Wilmington, Delaware (Address of principal executive offices)	19807 (Zip Code)

302-656-1707
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 2, 2012
Common Stock, $0.01 par value per share	18,017,045 shares

ACORN ENERGY, INC.
Quarterly Report on Form 10-Q
for the Quarterly Period Ended September 30, 2012

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Certain statements contained in this report are forward-looking in nature. These statements are generally identified by the inclusion of phrases such as “we expect”, “we anticipate”, “we believe”, “we estimate” and other phrases of similar meaning. Whether such statements ultimately prove to be accurate depends upon a variety of factors that may affect our business and operations. Many of these factors are described in our most recent Annual Report on Form 10-K as filed with Securities and Exchange Commission.

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PART I

ACORN ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	As of December 31, 2011	As of September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$34,280	$21,717
Short-term deposits	18,000	10,000
Restricted deposit	2,223	1,884
Funds held in escrow	5,961	—
Accounts receivable	4,965	4,746
Unbilled revenue	3,778	4,673
Inventory	2,144	3,190
Other current assets	922	3,143
Total current assets	72,273	49,353
Property and equipment, net	635	815
Severance assets	2,620	2,790
Restricted deposit	271	270
Intangible assets, net	4,780	9,823
Goodwill	4,637	6,622
Deferred taxes	440	481
Other assets	149	214
Total assets	$85,805	$70,368
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term bank credit and current maturities of long-term debt	$677	$524
Accounts payable	2,052	1,781
Accrued payroll, payroll taxes and social benefits	1,907	1,975
Deferred revenue	2,876	2,008
Other current liabilities	4,544	1,564
Total current liabilities	12,056	7,852
Long-term liabilities:		
Accrued severance	3,837	4,119
Long-term debt	141	39
Other long-term liabilities	204	225
Total long-term liabilities	4,182	4,383
Commitments and contingencies		
Equity:		
Acorn Energy, Inc. shareholders		
Common stock - $0.01 par value per share:		
	183	188

Authorized – 30,000,000 shares; Issued –18,325,529 and 18,818,965 shares at December 31, 2011 and September 30, 2012, respectively		
Additional paid-in capital	84,614	83,839
Warrants	427	55
Accumulated deficit	(13,022)	(24,062)
Treasury stock, at cost – 801,920 shares at December 31, 2011 and September 30, 2012	(3,036)	(3,036)
Accumulated other comprehensive income	485	717
Total Acorn Energy, Inc. shareholders' equity	69,651	57,701
Non-controlling interests	(84)	432
Total equity	69,567	58,133
Total liabilities and equity	$85,805	$70,368

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ACORN ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(IN THOUSANDS, EXCEPT NET INCOME (LOSS) PER SHARE DATA)

	Nine months ended September 30,		Three months ended September 30,	
	2011	2012	2011	2012
Revenues:				
Projects	$7,250	$11,017	$2,393	$3,399
Products	4,617	3,549	2,515	1,373
Services	386	621	143	280
Total revenues	12,253	15,187	5,051	5,052
Cost of sales:				
Projects	5,221	8,241	1,849	2,468
Products	2,404	2,113	1,289	791
Services	301	371	106	120
Total cost of sales	7,926	10,725	3,244	3,379
Gross profit	4,327	4,462	1,807	1,673
Operating expenses:				
Research and development expenses, net of credits	1,587	4,771	713	1,754
Selling, general and administrative expenses	8,609	13,891	3,142	5,272
Total operating expenses	10,196	18,662	3,855	7,026
Operating loss	(5,869)	(14,200)	(2,048)	(5,353)
Finance income (expense), net	46	(53)	262	(160)
Gain on sale of HangXing	492	—	—	—
Loss from continuing operations before taxes	(5,331)	(14,253)	(1,786)	(5,513)
Income tax benefit, net	12,072	2,476	12,111	1,487
Net income (loss) from continuing operations	6,741	(11,777)	10,325	(4,026)
Loss from discontinued operations, net of income taxes	(1,948)	—	(544)	—
Gain on the sale of discontinued operations, net of income taxes	30,683	—	30,683	—
Non-controlling interest share of loss from discontinued operations	540	—	151	—
Net income (loss)	36,016	(11,777)	40,615	(4,026)
Net loss attributable to non-controlling interests	484	737	181	276
Net income (loss) attributable to Acorn Energy, Inc. shareholders	$36,500	$(11,040)	$40,796	$(3,750)
Basic net income (loss) per share attributable to Acorn Energy, Inc. shareholders:				
From continuing operations	$0.41	$(0.62)	$0.60	$(0.21)
From discontinued operations	$1.68	$—	$1.73	$—
Basic net income (loss) per share attributable to Acorn Energy, Inc. shareholders	$2.09	$(0.62)	$2.33	$(0.21)
Weighted average number of shares outstanding attributable to Acorn Energy, Inc. shareholders – basic	17,443	17,843	17,508	17,934
Diluted net income (loss) per share attributable to Acorn Energy, Inc. shareholders:				
From continuing operations	$0.41	$(0.62)	$0.59	$(0.21)
From discontinued operations	$1.65	$—	$1.70	$—
	$2.06	$(0.62)	$2.29	$(0.21)

Diluted net income (loss) per share attributable to Acorn Energy, Inc. shareholders				
Weighted average number of shares outstanding attributable to Acorn Energy, Inc. shareholders – diluted	17,740	17,843	17,810	17,934
Dividends declared per common share	$—	$0.105	$—	$0.035

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACORN ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(IN THOUSANDS)

	Nine months ended September 30,		Three months ended September 30,	
	2011	2012	2011	2012
Net income (loss) attributable to Acorn Energy, Inc. shareholders	$36,500	$(11,040)	$40,796	$(3,750)
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation adjustments	(323)	232	(615)	233
Comprehensive income (loss), net of income taxes	36,177	(10,808)	40,181	(3,517)
Comprehensive loss attributable to non-controlling interests	(10)	(3)	(4)	(3)
Comprehensive income (loss) attributable to Acorn Energy, Inc. shareholders	$36,167	$(10,811)	$40,177	$(3,520)

The accompanying notes are an integral part of these condensed consolidated financial statements.

ACORN ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
(IN THOUSANDS)

	Acorn Energy, Inc. Shareholders									
	Number of Shares	Common Stock	Additional Paid-In Capital	Warrants	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Acorn Energy, Inc. Shareholders' Equity	Non-controlling interests	Total Equity
As of December 31, 2011	18,326	$183	$84,614	$427	$(13,022)	$(3,036)	$485	$69,651	$(84)	$69,567
Net loss	—	—	—	—	(11,040)	—	—	(11,040)	(737)	(11,777)
Differences from translation of subsidiaries' financial statements	—	—	—	—	—	—	232	232	(3)	229
	—	—	—	—	—	—	—	(10,808)	(740)	(11,548)

Comprehensive income										
Dividends	—	—	(1,875)	—	—	—	—	(1,875)	—	(1,875)
Dividends in common stock under the Company's Dividend Reinvestment Plan, net of discount (see Notes 8(a) and 8(b))	8	—	69	—	—	—	—	69	—	69
Adjustment of non-controlling interests in USSI following additional investment by the Company	—	—	(975)	—	—	—	—	(975)	975	—
Stock option compensation	—	—	309	—	—	—	—	309	—	309
Stock option compensation of subsidiaries	—	—	—	—	—	—	—	—	281	281
Exercise of warrants and options	485	5	1,697	(372)	—	—	—	1,330	—	1,330
Balances as of September 30, 2012	18,819	$ 188	$ 83,839	$ 55	$ (24,062)	$ (3,036)	$ 717	$ 57,701	$ 432	$ 58,133

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ACORN ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(IN THOUSANDS)

	Nine months ended	
	September 30, 2011	September 30, 2012
Cash flows used in operating activities:		
Net income (loss) before non-controlling interests	$35,476	$(11,777)
Less net income from discontinued operations	(28,735)	—
Net income (loss) from continuing operations	6,741	(11,777)
Adjustments to reconcile net income (loss) to net cash used in operating activities (see Schedule A)	(13,355)	(4,937)
Net cash used in operating activities – continuing operations	(6,614)	(16,714)
Cash flows provided by (used in) investing activities:		
Acquisitions of property and equipment	(351)	(476)
Acquisition of license	—	(150)
Restricted deposits	(656)	(46)
Release of restricted deposits	1,096	386
Maturity of short-term deposits	—	16,015
Short-term deposit	—	(8,015)
Amounts funded for severance assets	(225)	(235)
Advances to CoaLogix prior to sale	(278)	—
Proceeds from the sale of CoaLogix, net of CoaLogix cash	61,632	—
Escrow deposits from CoaLogix sale	(6,308)	—
Release of escrow deposits	—	5,961
Proceeds from the sale of HangXing	492	—
Acquisition of OmniMetrix, net of cash acquired (see Schedule C)	—	(7,835)
Net cash provided by investing activities – continuing operations	55,402	5,605
Cash flows provided by (used in) financing activities:		
Proceeds from employee stock option and warrant exercises	194	1,330
Short-term bank credit, net	(348)	(131)
Proceeds from borrowings of long-term debt	68	16
Repayments of long-term debt	(238)	(135)
Dividends paid	—	(2,682)
Other	29	—
Net cash used in financing activities – continuing operations	(295)	(1,602)
Discontinued operations:		
Operating cash flows	(2,020)	—
Investing cash flows	(187)	—
Financing cash flows	1,683	—
Net cash used in discontinued operations	(524)	—
Effect of exchange rate changes on cash and cash equivalents	(143)	148
Net increase (decrease) in cash and cash equivalents	47,826	(12,563)
Cash and cash equivalents at beginning of the year of discontinued operations	807	—
Cash and cash equivalents at beginning of year of continuing operations	6,549	34,280

Cash and cash equivalents at the end of the period	$55,182	21,717

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ACORN ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(IN THOUSANDS)

		Nine months ended September 30, 2011	September 30, 2012
A.	Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
	Depreciation and amortization	$625	$1,035
	Increase in accrued severance	293	371
	Stock-based compensation	315	590
	Deferred taxes	(10,697)	(1,766)
	Gain on the sale of HangXing	(492)	—
	Other	(52)	(29)
	Change in operating assets and liabilities:		
	Decrease (increase) in accounts receivable, unbilled work-in process, other current and other assets	874	(2,315)
	Increase in inventory	(763)	(799)
	Decrease in accounts payable, accrued payroll, payroll taxes and social benefits, advances from customers, other current liabilities and other liabilities	(3,458)	(2,024)
		$(13,355)	$(4,937)
B.	Non-cash investing and financing activities:		
	Adjustment of additional paid-in-capital and non-controlling interests from additional investment option by Acorn in USSI	$600	$975
	Value of shares issued under dividend reinvestment plan		$69
	Value of shares issued as compensation	101	
C.	Assets/liabilities acquired in the acquisition of OmniMetrix		
	Accounts receivable		(328)
	Inventory		(234)
	Other current assets		(10)
	Property and equipment		(26)
	Intangible assets		(5,581)
	Goodwill		(1,930)
	Current liabilities		274
			(7,835)

The accompanying notes are an integral part of these condensed consolidated financial statements.

NOTE 1— BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Acorn Energy, Inc. and its subsidiaries (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Certain reclassifications have been made to the Company's condensed consolidated financial statements for the three and nine month periods ended September 30, 2011 to conform to the current period's condensed consolidated financial statement presentation.

All dollar amounts in the notes to the condensed consolidated financial statements are in thousands except for per share data.

NOTE 2—RECENT AUTHORITATIVE GUIDANCE

In June 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income," ("ASU 2011-05") which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after Dec. 15, 2011 with early adoption permitted. The adoption of ASU 2011-05 by the Company did not have a material impact on the Company's consolidated results of operation and financial condition.

In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment (the revised standard). The revised standard is intended to reduce the cost and complexity of testing indefinite-lived intangible assets other than goodwill for impairment. It allows companies to perform a "qualitative" assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test. The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company is currently evaluating the effect that this guidance will have on its consolidated financial position, results of operations and cash flows.

Other recent authoritative guidance issued by the FASB (including technical corrections to the Codification), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not, or are not expected to have a material effect on the Company's consolidated financial statements.

NOTE 3—ACQUISITION OF OMNIMETRIX

On February 15, 2012, the Company entered into a definitive agreement pursuant to which it acquired, through its XYZ Holdings, Inc. wholly-owned Georgia subsidiary ("Holdings" which has been renamed OMX Holdings, Inc.), all of the issued and outstanding limited liability company membership interests (the "Interests") in OmniMetrix, LLC, a Georgia limited liability company ("OmniMetrix"). OmniMetrix is in the business of designing, manufacturing, marketing and selling (i) wireless remote systems that monitor standby power generation, backup power generators, remote powered equipment, cellular towers, emergency towered communications and remote tower sites (the "Power Generator Monitoring" segment - see Note 11), and (iii) cathodic protection products to monitor pipeline integrity (the "Cathodic Protection" segment - included in the Company's "Other" segment - see Note 11). Holdings purchased the Interests in OmniMetrix from its three individual holders (the "Sellers") in consideration for an aggregate cash payment of $8,500. The Company incurred approximately $300 of transaction costs in connection with the acquisition of OmniMetrix which are included in Selling, general and administrative expense in the Condensed Consolidated Statement of Operations. The acquisition of OmniMetrix adds to the Company's growing product lines of remote monitoring systems for aging energy infrastructure.

The transaction was accounted for as a purchase business combination. OmniMetrix's results from operations for the period from acquisition (February 15, 2012) to September 30, 2012 have been included in the Company's consolidated Statement of Operations. In the period since our acquisition, the Company recorded $952 of revenues and a net loss of $1,381 associated with OmniMetrix's activities. Pro forma information with respect to the acquisition of OmniMetrix are not included in these condensed financial statements as the information is not material.

In accordance with generally accepted accounting principles, the fair value of OmniMetrix is allocated to OmniMetrix's identifiable tangible and intangible assets and liabilities assumed based on their fair values as of the date of the transaction. Based upon a third-party valuation of intangible assets as of that date, the Company allocated the $8,500 consideration of the fair value to assets and liabilities as follows:

Cash	$665
Accounts receivable	328
Inventory	234
Other current assets	10
Property and equipment	26
Intangible assets	5,581
Goodwill (see Note 7 for allocation to segments)	1,930
Total assets acquired	8,774
Current liabilities	(274)
Fair value of assets and liabilities acquired	$8,500

Intangible assets with estimated useful lives are amortized over that period. The intangible assets acquired and their weighted average estimated useful life in years is noted in the table below:

Intangible Asset Acquired	Estimated value	Weighted average estimated useful life in years
OmniMetrix technologies	$2,319	10
Customer relationships	3,236	14
Non-compete agreements	26	6
	$5,581	

Goodwill is not amortized for financial statement purposes in accordance with generally accepted accounting principles and is expected to be deductible for tax purposes.

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NOTE 4—US SEISMIC SYSTEMS, INC.

On February 6, 2012, the Company entered into a new Stock Purchase Agreement (the “USSI Purchase Agreement”) with USSI pursuant to which the Company converted previously advanced funds into additional shares of USSI common stock (“USSI Common Stock”) and shares of USSI's new Series A-1 Preferred Stock (“USSI Preferred Stock”). The Company also made a further payment to USSI of $2,250 on February 6, 2012 to purchase additional shares of USSI Preferred Stock. The USSI Preferred Stock provides that upon any future liquidation of USSI, to the extent funds are available for distribution to USSI's stockholders after the satisfaction of any USSI liabilities at that time, USSI would first repay the Company for the purchase price of its USSI Preferred Stock. Thereafter, the Company would receive a further payment for such shares ratably with all other USSI Common Stock holders as though the Company's shares of USSI Preferred Stock were the same number of shares of USSI Common Stock.
In April 2012, the Company conducted a second closing for the purchase of additional USSI Preferred Stock in accordance with the USSI Purchase Agreement and invested an additional $2,500 in USSI. Following this investment, the Company would own approximately 92% of USSI upon conversion of the USSI Preferred Stock.
On July 30, 2012, the Company entered into another Stock Purchase Agreement (the “Summer USSI Purchase Agreement”) with USSI pursuant to which the Company made a payment to USSI of $2,500 to purchase additional shares of USSI Preferred Stock. The USSI Preferred Stock is the same class of shares that the Company acquired earlier this year (see above). In connection with this investment, the Company also entered into a Second Amended and Restated Stockholders Agreement with USSI and its other stockholders providing for certain rights and obligations to purchase or sell our USSI securities and with regard to the management of USSI.

Following the July 30, 2012 payment to USSI, the Company would own approximately 93.6% of USSI upon conversion of the USSI Preferred Stock. The Summer USSI Purchase Agreement contemplated that the Company would make an additional investment of $2,500 later in 2012 in exchange for additional shares of USSI Preferred Stock. On November 1, 2012, the Company made this additional investment (see Subsequent Events - Note 12).
In connection with the USSI Purchase Agreement, the Company established a new 2012 Stock Plan (the “USSI 2012 Stock Option Plan” or the "Plan") under which key employees, directors and consultants of USSI may receive options to purchase up to an aggregate of 1,180,000 shares of USSI Common Stock on such terms as the Plan provides and as determined by USSI's board of directors or by such committee designated by USSI's board to administer the Plan, if any. If options to purchase all shares of USSI Common Stock available under the Plan are granted and exercised, the Company would own approximately 83.2% of USSI upon conversion of the USSI Preferred Stock. See Note 8(d).

NOTE 5—NON-CONTROLLING INTERESTS

The composition of the net income (loss) attributable to non-controlling interests (“NCI”) is as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2011	2012	2011	2012
Net income (loss) attributable to NCI in DSIT	$(78)	$69	$(56)	$4
Net loss attributable to NCI in USSI	(406)	(806)	(125)	(280)
Net loss attributable to NCI	$(484)	$(737)	$(181)	$(276)

NOTE 6—INVENTORY

The composition of inventory is as follows:

	As of December 31, 2011	As of September 30, 2012
Raw materials	$1,663	$2,030
Work-in-process	481	603
Finished goods	—	557
	$2,144	$3,190

NOTE 7—GOODWILL AND INTANGIBLE ASSETS

(a) Goodwill

The changes in the carrying amounts of goodwill by segment from December 31, 2011 to September 30, 2012 were as follows:

	Energy & Security Sonar Solutions segment	GridSense segment	USSI segment	Power Generation Monitoring segment	Cathodic Protection segment*	Total
Balance as of December 31, 2011	$527	$2,708	$1,402	$—	$—	$4,637
Goodwill recorded in the acquisition of OmniMetrix (see Note 3)	—	—	—	1,517	413	1,930
Translation adjustment	(12)	67	—	—	—	55
Balance as of September 30, 2012	$515	$2,775	$1,402	$1,517	$413	$6,622

* Results for the Cathodic Protection segment are included in "Other" in Segment Reporting (see Note 11).

(b) Intangibles

The changes in the carrying amounts of and accumulated amortization of intangible assets from December 31, 2011 to September 30, 2012 were as follows:

	Energy & Security Sonar Solutions segment		GridSense segment		USSI segment		Power Generation Monitoring segment		Cathodic Protection segment**		
	Cost	A.A.*	Cost	A.A.*	Cost	A.A.*	Cost	A.A.*	Cost	A.A.*	Total
Balance as of December 31,	$519	$(274)	$2,748	$(543)	$2,565	$(235)	$—	$—	$—	$—	$4,780

2011											
Acquisition of license	—	—	—	—	150	—	—	—	—	—	150
Intangibles recorded in the acquisition of OmniMetrix (see Note 3)	—	—	—	—	—	—	4,385	—	1,196	—	5,581
Amortization	—	(61)	—	(243)	—	(107)	—	(221)	—	(84)	(716)
Cumulative translation adjustment	(11)	7	41	(9)	—	—	—	—	—	—	28
Balance as of September 30, 2012	$508	$(328)	$2,789	$(795)	$2,715	$(342)	$4,385	$(221)	$1,196	$(84)	$9,823
Weighted average estimated useful lives in years	6		10		20		13		9		

* Accumulated amortization
** Results for the Cathodic Protection segment are included in "Other" in Segment Reporting (see Note 11).

The composition of intangibles in each of the Company's segments are as follows:

Segment	Type of Intangible
Energy & Security Sonar Solutions	Naval technologies
GridSense	Software and customer relationships
USSI	Sensor technologies and license
Power Generation Monitoring	Technologies, customer relationships and non-compete agreements
Cathodic Protection*	Technologies and customer relationships

* The Cathodic Protection segment is included in "Other" in Segment Reporting (see Note 11).

In April 2012, USSI and Northrop Grumman Guidance and Electronics Company, Inc. signed a license agreement involving several of Northrop Grumman's fiber-optic technology patents. The license agreement calls for an initial payment of $150 and for a royalty payment of 10% of the net selling price of each unit of licensed products used or sold during the term of the agreement, subject to an annual minimum royalty of $50 for the first ten years of the license term.

Amortization expense for the nine months ended September 30, 2011 and 2012 amounted to $401 and $716, respectively. Amortization expense with respect to intangible assets is estimated to be $1,010, $978, $897, $855 and $855 for each of the years ending September 30, 2013 through 2017.

NOTE 8—EQUITY

(a) Dividend Reinvestment Plan

On August 15, 2012, the Company announced that it is offering its stockholders an opportunity to participate in a Dividend Reinvestment Plan ("DRIP "). The Company is offering up to 600,000 shares of its common stock for purchase under the DRIP. The DRIP provides participants the ability to invest all or a portion of cash dividends on their Acorn shares in additional shares of the Company's common stock. Initially, the Company will issue the shares under the DRIP directly at a 5% discount from the market price. The DRIP is administered by the Company's stock transfer agent.

(b) Dividends

On February 7, 2012, the Company announced that its Board of Directors approved a first quarter 2012 dividend of $0.035 per share which was paid on March 1, 2012 to common stockholders of record on February 20, 2012. On April 19, 2012, the Company's Board of Directors approved a second quarter 2012 dividend of $0.035 per share which was paid on June 1, 2012 to common stockholders of record on May 15, 2012. On July 10, 2012, the Company's Board of Directors approved a third quarter 2012 dividend of $0.035 per share which was paid on September 4, 2012 to common stockholders of record on August 17, 2012. The dividends are a continuation of the Company's policy to pay a regular quarterly dividend. The March 1, 2012 dividend payment was $620 while the June 1, 2012 dividend payment was $627 and the September 4, 2012 dividend payment was $628 of which $559 was in cash and $69 (net of the DRIP discount of $3) was in common stock of the Company (representing 8,429 shares of common stock) in accordance with the DRIP. See Note 12 - Subsequent Events with respect to the declaration of the fourth quarter 2012 dividend.

(c) Acorn Stock Options

A summary of stock option activity for the nine months ended September 30, 2012 is as follows:

	Number of Options (in shares)	Weighted Average Exercise Price Per Share	Weighed Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2011	1,388,333	$4.17		
Granted	190,000	$8.09		
Exercised	(215,197)	$3.18		
Forfeited or expired	(152,803)	$5.29		
Outstanding at September 30, 2012	1,210,333	$4.82	3.5 years	$5,028
Exercisable at September 30, 2012	944,708	$4.13	4.1 years	$4,526

The weighted average grant date fair value of the 190,000 stock options granted during the first nine months of 2012 was $3.60 per share. The fair value of the options granted was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

Risk-free interest rate	1.3	%
Expected term of options, in years	6.5	
Expected annual volatility	58	%
Expected dividend yield	1.8	%

(d) USSI Stock Option Plan

In February 2012, the Company adopted the USSI 2012 Stock Option Plan for its USSI subsidiary to be administrated by the board of directors of USSI. In September 2012, USSI granted options to purchase 619,375 of its common shares, to senior management, employees, outside directors and a consultant of USSI under the Plan. The options were granted with an exercise price of $1.72 per share based on a valuation performed by an independent third party and are exercisable for a period of seven years. The options vest over a three to four year period based on date of hire or other benchmark specified in the option agreement. Upon exercise of all the options in the Plan, the Company’s holdings in USSI will be diluted from 93.6% to approximately 83.2% (see Subsequent Events - Note 12). During the three and nine month periods ending September 30, 2012, $281 was recorded as stock compensation expense with respect to the abovementioned options ($68 in Research and development expenses, net of credits and $213 in Selling, general and administrative expenses). The purposes of the Plan for our USSI subsidiary are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to service providers and to promote the success of the business of USSI.

(e) Stock-based Compensation Expense

Stock-based compensation expense included in the Company's Condensed Statements of Operations for the three and nine month periods ended September 30, 2011 and 2012, was as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2011	2012	2011	2012
Research and development expenses, net of credits	$—	$68	$—	$68
Selling, general and administrative expenses	315	522	50	340
Total stock-based compensation expense	$315	$590	$50	$408

(f) Warrants

The Company previously issued warrants at exercise prices equal to or greater than market value of the Company's common stock at the date of issuance. A summary of warrant activity follows:

	Number of Warrants (in shares)	Weighted Average Exercise Price Per Share	Weighed Average Remaining Contractual Life
Outstanding at December 31, 2011	313,806	$4.29	
Granted	—		
Exercised	(269,808)	$4.39	
Forfeited or expired	(15,248)	$3.68	
Outstanding at September 30, 2012	28,750	$3.68	3.2 years

During the nine months ended September 30, 2012, 36,502 warrants were exercised and 15,248 warrants were forfeited in connection with the "net exercise" of 51,750 warrants. In a net exercise of a warrant, the Company does not require a payment of the exercise price of the warrant from the warrant holder, but reduces the number of shares of common stock issued upon the exercise of the warrant by the smallest number of whole shares that has an aggregate fair market value equal to or in excess of the aggregate exercise price for the warrants covered by the warrants exercised. The 51,750 warrants which were exercised under this method had a weighted average exercise price of $3.68 per share.

(g) DSIT Warrants

In August 2012, the warrant to purchase 10% of DSIT issued in August 2005 to the purchaser of the Company's former dsIT Technologies, Ltd. subsidiary expired.

NOTE 9—WARRANTY PROVISION

The changes in the warranty provision from December 31, 2011 to September 30, 2012 was as follows:

	Gross Carrying Amount
Balance at December 31, 2011*	$188

Warranties issued	—
Adjustment of warranty provision	54
Warranty claims	—
Balance at September 30, 2012*	$242

* The balance at December 31, 2011 is included in other current liabilities ($37) and other long-term liabilities ($151). At September 30, 2012, the balance is included in other current liabilities ($32) and other long-term liabilities ($210).

NOTE 10—FAIR VALUE MEASUREMENTS

Financial items measured at fair value are classified in the table below in accordance with the hierarchy established in applicable accounting principles.

	As at September 30, 2012			
	Level 1	Level 2	Level 3	Total
Short-term deposits	$10,000	$—	$—	$10,000
Restricted deposits – current and non-current	2,154	—	—	2,154
Funds held in escrow	—	—	—	—
Derivative assets	7	—	—	7
Total	$12,161	$—	$—	$12,161

	As at December 31, 2011			
	Level 1	Level 2	Level 3	Total
Short-term deposits	$18,000	$—	$—	$18,000
Restricted deposits – current and non-current	2,494	—	—	2,494
Funds held in escrow	5,961	—	—	5,961
Derivative liabilities	(18)	—	—	(18)
Total	$26,437	$—	$—	$26,437

Derivative assets and liabilities are forward contracts for the purchase of New Israeli Shekels for which market prices are readily available. Unrealized gains or losses from forward contracts are recorded in Finance expense, net.

NOTE 11—SEGMENT REPORTING

The Company currently operates in four operating segments:

(1) Energy & Security Sonar Solutions whose activities are focused on the following areas – sonar and acoustic related solutions for energy, defense and commercial markets and includes other real-time and embedded hardware & software development and production. Energy & Security Sonar Solutions activities are provided through the Company's DSIT Solutions Ltd. subsidiary.

(2) The Company's GridSense segment provides Smart Grid Distribution Automation products and services through its GridSense subsidiaries.

(3) The Company's USSI segment's focus is to develop and produce fiber optic sensing systems for the energy and security markets. These activities are performed through the Company's USSI subsidiary.

(4) The Company's Power Generation Monitoring segment provides products and services which deliver critical, real-time machine information to customers, while its Smart Service™ software provides remote diagnostics that give

users real control over their equipment. These activities are performed through the Company's OmniMetrix subsidiary. As these activities were acquired in February 2012 (see Note 3), there are no comparative results reported for these activities for the three and nine month periods ended September 30, 2011.

Other operations include various operations in DSIT and OmniMetrix that do not meet the quantitative thresholds under applicable accounting principles.

	Energy & Security Sonar Solutions	GridSense	USSI	Power Generation Monitoring	Other	Total
Nine months ended September 30, 2012						
Revenues from external customers	$9,170	$2,884	$1,317	$629	$1,187	$15,187
Intersegment revenues	—	—	—	—	—	—
Segment gross profit (loss)	3,281	1,240	(773)	188	526	4,462
Depreciation and amortization	173	288	238	221	106	1,026
Stock compensation expense	—	—	282	—	—	282
Segment net income (loss) before income taxes	619	(3,556)	(6,032)	(503)	82	(9,390)
Nine months ended September 30, 2011						
Revenues from external customers	$5,654	$4,684	$883	$—	$1,032	$12,253
Intersegment revenues	—	—	—	—	—	—
Segment gross profit (loss)	1,715	2,233	(107)	—	486	4,327
Depreciation and amortization	162	278	160	—	21	621
Stock compensation expense	—	—	—	—	—	—
Segment net income (loss) before income taxes	(782)	(787)	(1,899)	—	180	(3,288)
Three months ended September 30, 2012						
Revenues from external customers	$2,988	$977	$234	$328	$525	$5,052
Intersegment revenues	—	—	—	—	—	—
Segment gross profit (loss)	984	423	(168)	139	295	1,673
Depreciation and amortization	57	99	85	89	40	370
Stock compensation expense	—	—	282	—	—	282
Segment net income (loss) before income taxes	38	(1,499)	(2,230)	(275)	147	(3,819)
Three months ended September 30, 2011						
Revenues from external customers	$1,622	$2,544	$635	$—	$250	$5,051
Intersegment revenues	—	—	—	—	—	—
Segment gross profit (loss)	329	1,237	190	—	51	1,807
Depreciation and amortization	64	98	51	—	8	221
Stock compensation expense	—	—	—	—	—	—
Segment net income (loss) before income taxes	(512)	271	(645)	—	(55)	(941)

Reconciliation of Segment Income (Loss) to Consolidated Net Loss

	Nine months ended September 30,		Three months ended September 30,	
	2011	2012	2011	2012
Total net loss before income taxes for reportable segments	$(3,468)	$(9,472)	$(886)	$(3,966)
Other operational segment net income (loss) before income taxes	180	82	(55)	147
Total segment net loss before income taxes	(3,288)	(9,390)	(941)	(3,819)
Unallocated cost of corporate, DSIT and OmniMetrix headquarters*	(2,535)	(4,863)	(845)	(1,694)
Gain on sale of HangXing	492	—	—	—
Gain on the sale of discontinued operations, net of income taxes	30,683	—	30,683	—
Income tax benefit, net**	12,072	2,476	12,111	1,487
Non-controlling interests (see Note 5)	484	737	181	276
Loss from discontinued operations, net of the loss attributable to non-controlling interests	(1,408)	—	(393)	—
Consolidated net income (loss) attributable to Acorn Energy, Inc. shareholders	$36,500	$(11,040)	$40,796	$(3,750)

* Includes stock compensation expense of $315 and $309 for the nine month periods ending September 30, 2011 and 2012, respectively. Includes stock compensation expense of $50 and $127 for the three month periods ending September 30, 2011 and 2012, respectively.

** In the nine months ended September 30, 2012, includes an income tax benefit of $2,600 recorded with respect to net operating loss carryback of the Company's expected consolidated tax loss in the United States.

In the three months ended September 30, 2012, includes an income tax benefit of $1,500 recorded with respect to net operating loss carryback of the Company's expected consolidated tax loss in the United States.

In the three and nine month periods ended September 30, 2011, relates primarily to the recognition of deferred tax assets of $12,000 following the gain on the sale of CoaLogix.

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NOTE 12—SUBSEQUENT EVENTS

Additional Investment in USSI

Following the July 30, 2012 payment to USSI, the Company would own approximately 93.6% of USSI upon conversion of the USSI Preferred Stock. On November 1, 2012, Acorn made an additional investment of $2,500 in exchange for additional shares of USSI Preferred Stock under the Summer USSI Purchase Agreement. Following the November 1, 2012 payment to USSI, the Company would own approximately 94.4% of USSI upon conversion of the USSI Preferred Stock (which amount would be diluted to approximately 85.1% if all options which could be awarded under USSI's 2012 Stock Purchase Plan were awarded and exercised).

Dividends

On October 23, 2012, the Company's Board of Directors approved a fourth quarter 2012 dividend of $0.035 per share to be paid on December 3, 2012 to common stockholders of record on November 15, 2012.

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ACORN ENERGY, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion includes statements that are forward-looking in nature. Whether such statements ultimately prove to be accurate depends upon a variety of factors that may affect our business and operations. Certain of these factors are discussed in this report and in our Annual Report on Form 10-K for the year ended December 31, 2011.

FINANCIAL RESULTS BY COMPANY

The following table shows, for the periods indicated, the financial results (dollar amounts in thousands) attributable to each of our consolidated companies. The financial results of OmniMetrix are included in our consolidated financial statements effective February 15, 2012. Accordingly, there are no comparative results reported for these activities for the three and nine month periods ended September 30, 2011.

	Nine months ended September 30, 2012					
	DSIT	OmniMetrix	GridSense	USSI	Acorn	Total
Revenues	$10,034	$952	$2,884	$1,317	$—	$15,187
Cost of Sales	6,401	592	1,643	2,089	—	10,725
Gross profit	3,633	360	1,241	(772)	—	4,462
Gross profit margin	36%	38%	43%	(59)%		29%
R& D expenses, net of credits	789	208	1,114	2,660	—	4,771
Selling, general and administrative expenses	2,224	1,533	3,509	2,598	4,027	13,891
Operating income (loss)	$620	$(1,381)	$(3,382)	$(6,030)	$(4,027)	$(14,200)

	Nine months ended September 30, 2011					
	DSIT	OmniMetrix	GridSense	USSI	Acorn	Total
Revenues	$6,686	$—	$4,684	$883	$—	$12,253
Cost of Sales	4,486	—	2,451	989	—	7,926
Gross profit	2,200	—	2,233	(106)	—	4,327
Gross profit margin	33%		48%	(12)%		35%
R& D expenses, net of credits	428	—	525	634	—	1,587
Selling, general and administrative expenses	2,375	—	2,565	1,158	2,511	8,609
Operating loss	$(603)	$—	$(857)	$(1,898)	$(2,511)	$(5,869)

	Three months ended September 30, 2012	
	DSIT	OmniMetrix