ACORN ENERGY, INC.
Form 10-Q
May 09, 2013

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 March 31, 2013

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 May 2, 2013
Common Stock, $0.01 par value per share	18,090,536

ACORN ENERGY, INC.
Quarterly Report on Form 10-Q
for the Quarterly Period Ended March 31, 2013

TABLE OF CONTENTS

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.

PART I

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

	As of December 31, 2012	As of March 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$26,147	$20,163
Restricted deposit	699	618
Accounts receivable	5,481	2,593
Unbilled revenue	5,213	6,218
Inventory	5,106	5,363
Other current assets	3,547	3,618
Total current assets	46,193	38,573
Property and equipment, net	927	1,599
Severance assets	3,165	3,241
Restricted deposit	115	118
Intangible assets, net	9,561	9,305
Goodwill	6,630	6,646
Other assets	745	863
Total assets	$67,336	$60,345
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term bank credit and current maturities of long-term debt	$153	$276
Accounts payable	2,631	1,641
Accrued payroll, payroll taxes and social benefits	2,420	2,185
Deferred revenue	3,323	2,309
Other current liabilities	1,708	2,095
Total current liabilities	10,235	8,506
Long-term liabilities:		
Accrued severance	4,491	4,602
Other long-term liabilities	665	763
Total long-term liabilities	5,156	5,365
Commitments and contingencies		
Equity:		
Acorn Energy, Inc. shareholders		
Common stock - $0.01 par value per share:		
Authorized – 30,000,000 shares; Issued –18,870,526 and 18,892,456 shares at December 31, 2012 and March 31, 2013, respectively	188	188
Additional paid-in capital	83,469	83,210
Warrants	55	44
Accumulated deficit	(29,733)	(34,708)
Treasury stock, at cost – 801,920 shares at December 31, 2012 and March 31, 2013	(3,036)	(3,036)
Accumulated other comprehensive income	716	678
Total Acorn Energy, Inc. shareholders’ equity	51,659	46,376
Non-controlling interests	286	98

Total equity	51,945	46,474
Total liabilities and equity	$67,336	$60,345

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

1

Table of Contents

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

	Three months ended March 31,	
	2012	2013
Revenues:		
Projects	$3,036	$3,582
Products	928	1,707
Services	219	427
Total revenues	4,183	5,716
Cost of sales:		
Projects	2,246	2,449
Products	613	1,039
Services	124	103
Total cost of sales	2,983	3,591
Gross profit	1,200	2,125
Operating expenses:		
Research and development expenses, net of credits	1,318	2,001
Selling, general and administrative expenses	4,229	5,256
Total operating expenses	5,547	7,257
Operating loss	(4,347)	(5,132)
Finance income (expense), net	(23)	14
Loss before income taxes	(4,370)	(5,118)
Income tax expense, net	(75)	(69)
Net loss	(4,445)	(5,187)
Net loss attributable to non-controlling interests	256	212
Net loss attributable to Acorn Energy, Inc. shareholders	$(4,189)	$(4,975)
Basic and diluted net loss per share attributable to Acorn Energy, Inc. shareholders	$(0.24)	$(0.28)
Weighted average number of shares outstanding attributable to Acorn Energy, Inc. shareholders – basic and diluted	17,680	18,077
Dividends declared per common share	$0.035	$0.035

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

Table of Contents

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

	Three months ended March 31,	
	2012	2013
Net loss attributable to Acorn Energy, Inc. shareholders	$(4,189)	$(4,975)
Other comprehensive income (loss)		
Foreign currency translation adjustments	201	(48)
Comprehensive loss	(3,988)	(5,023)
Comprehensive (income) loss attributable to non-controlling interests	(6)	10
Comprehensive loss attributable to Acorn Energy, Inc. shareholders	$(3,994)	$(5,013)

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

Table of Contents

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, 2012	18,871	$ 188	$ 83,469	$ 55	$ (29,733)	$ (3,036)	$ 716	$ 51,659	$ 286	$ 51,945
Net loss	—	—	—	—	(4,975)	—	—	(4,975)	(212)	(5,187)
Differences from translation of subsidiaries' financial statements	—	—	—	—	—	—	(38)	(38)	(10)	(48)
Dividends	—	—	(634)	—	—	—	—	(634)	—	(634)
Dividends in common stock under the Company's Dividend Reinvestment Plan, net of discount (see Note 7(a))	19	—	117	—	—	—	—	117	—	117
Stock option compensation	—	—	247	—	—	—	—	247	—	247
Stock option compensation of subsidiaries	—	—	—	—	—	—	—	—	34	34
Exercise of warrants	3	—	11	(11)	—	—	—	—	—	—
Balances as of March 31, 2013	18,893	$ 188	$ 83,210	$ 44	$ (34,708)	$ (3,036)	$ 678	$ 46,376	$ 98	$ 46,474

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

4

Table of Contents

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

	Three months ended March 31,	
	2012	2013
Cash flows used in operating activities:		
Net loss	$(4,445)	$(5,187)
Adjustments to reconcile net loss to net cash used in operating activities (see Schedule A)	(269)	453
Net cash used in operating activities	(4,714)	(4,734)
Cash flows provided by (used in) investing activities:		
Acquisitions of property and equipment	(228)	(861)
Restricted deposits	(62)	(53)
Release of restricted deposits	386	132
Amounts funded for severance assets	(84)	(73)
Acquisition of OmniMetrix, net of cash acquired (see Schedule C)	(7,835)	—
Net cash used in investing activities	(7,823)	(855)
Cash flows provided by (used in) financing activities:		
Proceeds from employee stock option and warrant exercises	1,293	—
Short-term bank credit, net	(208)	158
Proceeds from borrowings of long-term debt	16	—
Repayments of long-term debt	(52)	(38)
Dividends paid	(1,496)	(517)
Net cash used in financing activities	(447)	(397)
Effect of exchange rate changes on cash and cash equivalents	105	2
Net decrease in cash and cash equivalents	(12,879)	(5,984)
Cash and cash equivalents at the beginning of the period	34,280	26,147
Cash and cash equivalents at the end of the period	$21,401	$20,163

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

Table of Contents

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

		Three months ended March 31, 2012	2013
A.	Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
	Depreciation and amortization	$294	$379
	Increase in accrued severance	112	98
	Stock-based compensation	142	281
	Deferred taxes	(221)	(34)
	Other	34	12
	Change in operating assets and liabilities:		
	Decrease in accounts receivable, unbilled work-in process, other current and other assets	1,035	1,730
	Increase in inventory	(537)	(255)
	Decrease in accounts payable, accrued payroll, payroll taxes and social benefits, advances from customers, other current liabilities and other liabilities	(1,128)	(1,758)
		$(269)	$453
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	$273	
	Value of shares issued under dividend reinvestment plan	$69	$117
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.

Table of Contents

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 three month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.
All dollar amounts in the notes to the condensed consolidated financial statements are in thousands except for per share data.
Certain reclassifications have been made to the Company's condensed consolidated financial statements for the three month period ended March 31, 2012 to conform to the current period's condensed consolidated financial statement presentation. 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, 2012.

As reported in the Company's Form 10-K report for the year ended December 31, 2012, results have been corrected for those previously reported for the first, second and third quarters of 2012 following further analysis of the recognition of certain revenues and costs of OmniMetrix. Revenues and costs of sales have been restated for each of those quarters, as noted below, to recognize such hardware revenues and cost of sales in accordance with the accounting for multiple elements and recognizing those revenues and costs over expected customer life rather than at the delivery of the monitoring unit.

The effect of the restatement on the Company's net loss and basic and diluted loss per share for the three-month periods ended on each of March 31, June 30, and September 30, 2012, the six month period ended June 30, 2012 and the nine month period ended September 30, 2012 are shown below:

	Three months ended	Six months ended	Three months ended	Nine months ended	Three months ended
	March 31, 2012	June 30, 2012		September 30, 2012	
Net loss attributable to Acorn Energy, Inc. shareholders - as reported	$(4,178)	$(7,290)	$(3,112)	$(11,040)	$(3,750)
Net effect of restatement	(11)	(103)	(92)	(288)	(185)
Net loss attributable to Acorn Energy, Inc. shareholders - restated	$(4,189)	$(7,393)	$(3,204)	$(11,328)	$(3,935)
Basic and diluted net loss per share attributable to Acorn Energy, Inc. shareholders - as reported	$(0.24)	$(0.41)	$(0.17)	$(0.62)	$(0.21)
Net effect of restatement	—	(0.01)	(0.01)	(0.01)	(0.01)
Basic and diluted net loss per share attributable to Acorn Energy, Inc. shareholders - restated	$(0.24)	$(0.42)	$(0.18)	$(0.63)	$(0.22)

7

Table of Contents

NOTE 2—RECENT AUTHORITATIVE GUIDANCE

Effective January 1, 2013, the Company adopted the authoritative guidance, issued by the Financial Accounting Standards Board ("FASB") in February, 2013, related to reclassifications out of accumulated other comprehensive income ("OCI"). Under this update, an entity is required to report, in one place, information about reclassifications out of accumulated OCI and to report changes in its accumulated OCI balances. For significant items reclassified out of accumulated OCI to net income in their entirety in the same reporting period, reporting is required about the effect of the reclassifications on the respective line items in the statement where net income is presented. For items that are not reclassified to net income in their entirety in the same reporting period, a cross reference to other disclosures currently required under GAAP is required in the notes to the financial statements. The adoption of this guidance had no impact on the Company's consolidated financial statements.

There have been no other recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2013, that are of material significance, or have potential material significance, to the Company.

Table of Contents

NOTE 3—US SEISMIC SYSTEMS, INC.

On February 28, 2013, the Company entered into a new Stock Purchase Agreement (the "2013 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 in 2012 and 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.

Following the February 28, 2013 payment to USSI, the Company owned approximately 95.0% of USSI on an as converted basis. The 2013 USSI Purchase Agreement contemplates that the Company may make an additional investment of $2,500 later this year in exchange for more shares of USSI Preferred Stock. If the Company fully funds that investment, it will own approximately 95.6% of USSI on an as converted basis (which amount would be diluted to approximately 87.9% if all options which could be awarded under USSI's 2012 Stock Purchase Plan were awarded and exercised).

Table of Contents

NOTE 4—NON-CONTROLLING INTERESTS

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

	Three months ended March 31,	
	2012	2013
Net income attributable to NCI in DSIT	$8	$21
Net loss attributable to NCI in USSI	(264)	(233)
Net loss attributable to NCI	$(256)	$(212)

Table of Contents

NOTE 5—INVENTORY

The composition of inventory is as follows:

	As of December 31, 2012	As of March 31, 2013
Raw materials	$3,281	$3,244
Work-in-process	782	1,177
Finished goods	1,043	942
	$5,106	$5,363

Table of Contents

NOTE 6—GOODWILL AND INTANGIBLE ASSETS

(a) Goodwill

The changes in the carrying amounts of goodwill by segment from December 31, 2012 to March 31, 2013 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, 2012	$541	$2,757	$1,402	$1,517	$413	$6,630
Translation adjustment	7	9	—	—	—	16
Balance as of March 31, 2013	$548	$2,766	$1,402	$1,517	$413	$6,646

* Results for the Cathodic Protection segment are included in "Other" in Segment Reporting (see Note 9).

(b) Intangibles

The changes in the carrying amounts of and accumulated amortization of intangible assets from December 31, 2012 to March 31, 2013 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, 2012	$532	$(364)	$2,777	$(873)	$2,715	$(380)	$4,385	$(309)	$1,196	$(118)	$9,561
Amortization	—	(20)	—	(81)	—	(38)	—	(88)	—	(34)	(261)
Translation adjustment	7	(6)	8	(4)	—	—	—	—	—	—	5
Balance as of March 31, 2013	$539	$(390)	$2,785	$(958)	$2,715	$(418)	$4,385	$(397)	$1,196	$(152)	$9,305
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 9).

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 9).

Amortization expense for the three months ended March 31, 2012 and 2013 amounted to $194 and $261, respectively. Amortization expense with respect to intangible assets is estimated to be $980, $960, $854, $854 and $854 for each of the years ending March 31, 2014 through 2018.

12

Table of Contents

NOTE 7—EQUITY

(a) Dividends

On February 7, 2013, the Company announced that its Board of Directors approved a dividend of $0.035 per share to be paid on March 4, 2013 to common stockholders of record on February 20, 2013. The total dividend payment on March 4, 2013 was $634 of which $517 was in cash and $117 (net of the Dividend Reinvestment Plan ("DRIP") discount of $6) was in common stock of the Company (representing 18,976 shares of common stock) in accordance with the DRIP.

(b) Acorn Stock Options

A summary of stock option activity for the three months ended March 31, 2013 is as follows:

	Number of Options (in shares)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2012	1,311,397	$ 5.20		
Granted	46,461	$ 7.19		
Exercised	—	$ —		
Forfeited or expired	—	$ —		
Outstanding at March 31, 2013	1,357,858	$ 5.27	4.1 years	$ 3,076
Exercisable at March 31, 2013	1,010,688	$ 4.40	4.4 years	$ 2,984

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	6.7 years	
Expected annual volatility	57	%
Expected dividend yield	2.0	%

(c) Stock-based Compensation Expense

Stock-based compensation expense included in the Company’s Condensed Statements of Operations for the three month periods ended March 31, 2012 and 2013 was as follows:

	Three months ended March 31,	
	2012	2013
Research and development expenses, net of credits	$ —	$ 10
Selling, general and administrative expenses	142	271
Total stock-based compensation expense	$ 142	$ 281

Table of Contents

(d) 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	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2012	28,750	$ 3.68	
Granted	—		
Exercised	(2,954)	$ 3.68	
Forfeited or expired	(2,796)	$ 3.68	
Outstanding at March 31, 2013	23,000	$ 3.68	2.7 years

During the three months ended March 31, 2013, 2,954 warrants were exercised and 2,796 warrants were forfeited in connection with the "net exercise" of 5,750 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 5,750 warrants which were exercised under this method had a weighted average exercise price of $3.68 per share.

Table of Contents

NOTE 8—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 March 31, 2013			
	Level 1	Level 2	Level 3	Total
Restricted deposits – current and non-current	$736	$—	$—	$736
Derivative assets	80	—	—	80
Total	$816	$—	$—	$816

	As at December 31, 2012			
	Level 1	Level 2	Level 3	Total
Restricted deposits – current and non-current	$814	$—	$—	$814
Derivative assets	112	—	—	112
Total	$926	$—	$—	$926

Derivative assets 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 income (expense), net.

Table of Contents

NOTE 9—SEGMENT REPORTING

The Company currently operates in four reportable operating segments:

(1) The Company's Energy & Security Sonar Solutions segment is focused on 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, there are only partial comparative results reported for these activities for the three month period ended March 31, 2012.

Other operations include certain IT activities (protocol management software for cancer patients and billing software) and outsourced consulting activities performed by the Company's DSIT subsidiary and Cathodic Protection activities in the Company's OmniMetrix subsidiary) that do not meet the quantitative thresholds under applicable accounting principles.

	Energy & Security Sonar Solutions	GridSense	USSI	Power Generation Monitoring	Other	Total
Three months ended March 31, 2013						
Revenues from external customers	$3,046	$1,543	$325	$396	$406	$5,716
Intersegment revenues	—	—	39	—	—	39
Segment gross profit (loss)	1,222	661	(168)	236	174	2,125
Depreciation and amortization	57	104	84	88	40	373
Stock compensation expense	—	—	34	—	—	34
Segment net income (loss) before income taxes	252	(1,147)	(1,851)	(381)	12	(3,115)
Three months ended March 31, 2012						
Revenues from external customers	$2,763	$918	$121	$85	$296	$4,183
Intersegment revenues	—	—	—	—	—	—
Segment gross profit (loss)	960	344	(211)	40	67	1,200
Depreciation and amortization	58	96	70	43	25	292
Stock compensation expense	—	—	—	—	—	—
Segment net income (loss) before income taxes	160	(1,199)	(1,715)	(15)	(67)	(2,836)

16

Table of Contents

Reconciliation of Segment Income (Loss) to Consolidated Net Loss

	Three months ended March 31,	
	2012	2013
Total net loss before income taxes for reportable segments	$(2,769)	$(3,127)
Other operational segment net income (loss) before income taxes	(67)	12
Total segment net loss before income taxes	(2,836)	(3,115)
Unallocated cost of corporate headquarters*	(1,460)	(1,392)
Unallocated cost of DSIT and OmniMetrix headquarters	(74)	(611)
Consolidated loss before income taxes	$(4,370)	$(5,118)

* Includes stock compensation expense of $142 and $247 for the three month periods ending March 31, 2012 and 2013, respectively.

Table of Contents

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, 2012.

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 only partial comparative results reported for these activities for the three month period ended March 31, 2012.

	Three months ended March 31, 2013					
	DSIT	OmniMetrix	GridSense	USSI	Acorn	Total
Revenues	$3,315	$533	$1,543	$325	$—	$5,716
Cost of Sales	2,011	205	882	493	—	3,591
Gross profit	1,304	328	661	(168)	—	2,125
Gross profit margin	39%	62%	43%	(52)%		37%
R& D expenses, net of credits	271	120	712	898	—	2,001
Selling, general and administrative expenses	836	1,151	1,096	781	1,392	5,256
Operating income (loss)	$197	$(943)	$(1,147)	$(1,847)	$(1,392)	$(5,132)

	Three months ended March 31, 2012					
	DSIT	OmniMetrix	GridSense	USSI	Acorn	Total
Revenues	$3,041	$103	$918	$121	$—	$4,183
Cost of Sales	2,014	63	574	332	—	2,983
Gross profit	1,027	40	344	(211)	—	1,200
Gross profit margin	34%	39%	37%	(174)%		29%
R& D expenses, net of credits	176	16	218	908	—	1,318
Selling, general and administrative expenses	723	201	1,248	596	1,461	4,229
Operating income (loss)	$128	$(177)	$(1,122)	$(1,715)	$(1,461)	$(4,347)

BACKLOG

As of March 31, 2013, our backlog of work to be completed was as follows (amounts in millions of U.S. dollars):

DSIT Solutions	$8.2
GridSense	0.3
OmniMetrix	1.7
USSI	1.1
Total	$11.3

RECENT DEVELOPMENTS

Resignation of GridSense CEO

Table of Contents

On May 7, 2013, Lindon Shiao, President and CEO of each of our GridSense subsidiaries, tendered his resignation, effective May 10, 2013, from such positions, but will remain a member of the GridSense subsidiaries' boards of directors. In connection with such resignation, GridSense and Mr. Shiao entered into a Separation Agreement and Release pursuant to which Mr. Shiao affirmed his surviving obligations to GridSense under his At-Will Employment, Confidential Information, Non-Solicitation and Invention Assignment Agreement with regard to non-solicitation of GridSense employees, intellectual property and confidential information and committed to assist in transition matters in exchange for severance payments totaling $120,000, which equates to six months of his annual salary of $240,000. The parties also released one another from certain legal liability in connection with their past relationship. In addition, Mr. Shiao will maintain the vested portion of his award under the GridSense Employee Incentive Plan, which represents approximately a 3.49% interest in the consideration received upon the sale of all or substantially all of the assets or securities of one or more of the Registrant's GridSense subsidiaries, net of transaction expenses and agreed-upon returns to Acorn on its invested capital in such entities. GridSense has also agreed to pay Mr. Shiao $40,000 contingent on the receipt of payment from an anticipated customer order developed by Mr. Shiao and concerning which he has agreed to provide on-going efforts. Concurrent with accepting Mr. Shiao's resignation, the Boards of Directors of each of the GridSense subsidiaries appointed Joseph Musanti, who had been serving as such subsidiaries' CFO and Chief Operating Officer, as President and CEO of each of the GridSense subsidiaries and to their respective Boards of Directors. Mr. Musanti will continue to provide services under a previously executed At-Will Employment, Confidential Information, Non-Solicitation and Invention Assignment Agreement.

New Acorn Director

On Wednesday, May 8, 2013, Acorn's Board elected Robert E. McKee, III to fill the board seat vacated by Mr. Musanti in December 2012. Mr. McKee had a 37 year career at ConocoPhillips and Conoco, Inc., including ten years as Executive Vice President, Exploration and Production (1992-2002). He was a senior oil advisor to the Coalition Provisional Authority and the Iraqi Oil Ministry in Iraq to assist with the rebuilding of its oil industry from September 2003 to March 2004. He is also a Director of QEP Resources, an unconventional oil driller, Post Oak Bank and a board member on the Colorado School of Mines Foundation.

Upon his appointment to the Board, pursuant to Acorn's 2006 Stock Option Plan For Non-Employee Directors, Mr. McKee was granted options to purchase 25,000 shares of the Company's common stock at an exercise price of $7.86 per share (the fair market value on the date of grant), which options shall vest one-third per year, the first third to vest one year following the date of grant, and be exercisable for seven years from the date of grant. In connection with services rendered by Mr. McKee prior to being elected to the Board, he was awarded 10,000 options under Acorn's Amended and Restated 2006 Stock Incentive Plan to purchase shares of the Company's common stock at a price of $7.86 per share, exercisable immediately and for a term of seven years.

In accordance with the Company's director compensation policy, Mr. McKee will receive an annual retainer of $40,000 payable quarterly in advance. He will also be eligible for committee fees, but the Board of Directors has not yet determined on which of its committees Mr. McKee will serve.

19

Table of Contents

OVERVIEW AND TREND INFORMATION

Acorn Energy, Inc. ("Acorn" or "the Company") is a holding company focused on technology driven solutions for energy infrastructure asset management.

Through our majority or wholly-owned operating subsidiaries we provide the following services and products:

· Energy & Security Sonar Solutions . We provide sonar and acoustic related solutions for energy, defense and commercial markets with a focus on underwater site security for strategic energy installations and other advanced acoustic systems and real-time embedded hardware and software development and production through our DSIT Solutions Ltd. ("DSIT") subsidiary.

· Smart Grid Distribution Automation. These products and services are provided by our GridSense subsidiaries (GridSense Inc. in the United States and GridSense Pty Ltd. and CHK GridSense Pty Ltd. in Australia - collectively "GridSense") which develop, market and sell remote monitoring and control systems to electric utilities and industrial facilities worldwide.

· Energy and Security Sensor Systems. These products and services are provided by our US Seismic Systems, Inc. subsidiary ("USSI") which develops and produces "state of the art" fiber optic sensing systems for the energy, commercial security and defense markets worldwide.

· Power Generation (PG) Monitoring. These products and services are provided by our OmniMetrix subsidiary. OmniMetrix's PG products and services deliver critical, real-time machine information to customers and provide remote diagnostics that give users real control over their equipment.

During 2013, each of the four abovementioned activities represented a reportable segment. In addition, our "Other" segment represents IT and consulting activities at our DSIT subsidiary as well as Cathodic Protection activities in our OmniMetrix subsidiary. As OmniMetrix's activities were acquired in February 2012, there are only partial comparative results reported for these activities for the three month period ended March 31, 2012.
The following analysis should be read together with the segment information provided in Note 9 to the interim unaudited condensed consolidated financial statements included in this quarterly report.

DSIT Solutions
DSIT reported increased revenues in the first three months of 2013 as compared to the first three months of 2012 as well as increased gross profit, gross margin and net income. DSIT's revenues of $3.3 million for the first three months of 2013 represents an increase of approximately $0.3 million or 9% as compared to the first three months of 2012. First quarter 2013 revenues of $3.3 million refle