ACORN ENERGY, INC.
Form 10-Q
November 14, 2016

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, 2016

Commission file number: **001-33886**

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.)**
3844 Kennett Pike, 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 [ ] Non-accelerated filer [ ] Smaller reporting company [X]

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 11, 2016
Common Stock, $0.01 par value per share	29,322,574

ACORN ENERGY, INC.

Quarterly Report on Form 10-Q

for the Quarterly Period Ended September 30, 2016

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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 the Securities and Exchange Commission.

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PART I

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ACORN ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	As of September 30, 2016	As of December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 104	$ 124
Restricted deposits	—	2,172
Escrow deposit	—	100
Accounts receivable, net of provisions for doubtful accounts of $10 and $20 at September 30, 2016 and December 31, 2015, respectively	455	6,389
Unbilled revenue	—	3,849
Inventory, net	239	506
Other current assets	851	1,633
Current assets – discontinued operations	496	1,079
Total current assets	2,145	15,852
Investment in DSIT	5,454	—
Property and equipment, net	234	954
Escrow deposit	579	—
Severance assets	—	3,558
Restricted deposits	—	2,951
Goodwill	—	516
Other assets	187	470
Non-current assets – discontinued operations	—	29
Total assets	$ 8,599	$ 24,330
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt and current maturities of long-term debt	$ 47	$ 1,916
Leap Tide loan payable, net of discount	—	1,900
Accounts payable	486	2,346
Accrued payroll, payroll taxes and social benefits	462	1,320
Deferred revenue	1,956	5,251
Other current liabilities	694	2,260

Current liabilities – discontinued operations	1,218	1,827
Total current liabilities	4,863	16,820
Long-term liabilities:		
Accrued severance	—	4,984
Other long-term liabilities	578	849
Due to DSIT	1,066	—
Non-current liabilities – discontinued operations	—	19
Total long-term liabilities	1,644	5,852
Commitments and contingencies		
Equity:		
Acorn Energy, Inc. shareholders		
Common stock - $0.01 par value per share:		
Authorized – 42,000,000 shares; Issued – 30,124,494 and 28,127,511 shares at September 30, 2016 and December 31, 2015, respectively	301	281
Additional paid-in capital	99,921	98,977
Warrants	1,600	1,597
Accumulated deficit	(97,078)	(97,191)
Treasury stock, at cost – 801,920 shares at September 30, 2016 and December 31, 2015	(3,036)	(3,036)
Accumulated other comprehensive loss	(254)	(262)
Total Acorn Energy, Inc. shareholders’ equity	1,454	366
Non-controlling interests	638	1,292
Total equity	2,092	1,658
Total liabilities and equity	$ 8,599	$ 24,330

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

ACORN ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	**2015**
Revenue	$942	$4,402	$7,618	$12,217
Cost of sales	418	2,579	4,681	7,483
Gross profit	524	1,823	2,937	4,734
Operating expenses:				
Research and development expenses, net of credits	133	323	791	1,225
Selling, general and administrative expenses	1,015	2,449	4,845	7,242
Total operating expenses	1,148	2,772	5,636	8,467
Operating loss	(624)	(949)	(2,699)	(3,733)
Finance expense, net	(11)	(250)	(558)	(314)
Loss before income taxes	(635)	(1,199)	(3,257)	(4,047)
Income tax expense	--	(58)	(19)	(45)
Net loss after income taxes	(635)	(1,257)	(3,276)	(4,092)
Gain on sale of interest in DSIT, net of income taxes and transaction costs	--	--	3,543	--
Share of income in DSIT	38	--	63	--
Income (loss) before discontinued operations	(597)	(1,257)	330	(4,092)
Income (loss) from discontinued operations, net of income taxes	1,187	(1,376)	(423)	(4,651)
Net income (loss)	590	(2,633)	(93)	(8,743)
Non-controlling interest share of net (income) loss – continuing operations	62	(45)	206	(29)
Non-controlling interest share of net (income) loss – discontinued operations	--	(78)	--	98
Net income (loss) attributable to Acorn Energy, Inc. shareholders	$652	$(2,756)	$113	$(8,674)
Basic and diluted net income (loss) per share attributable to Acorn Energy, Inc. shareholders:				
Continuing operations	$(0.02)	$(0.05)	$0.02	$(0.16)
Discontinued operations	0.04	(0.05)	(0.02)	(0.17)
Total attributable to Acorn Energy, Inc. shareholders	$0.02	$(0.10)	$0.00	$(0.33)
Weighted average number of shares outstanding attributable to Acorn Energy, Inc. shareholders – basic	29,323	26,933	28,208	26,629
Weighted average number of shares outstanding attributable to Acorn Energy, Inc. shareholders – diluted	29,323	26,933	28,246	26,629

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

ACORN ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(IN THOUSANDS)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income (loss) attributable to Acorn Energy, Inc. shareholders	$652	$(2,756)	$113	$(8,674)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(12)	(132)	6	(114)
Comprehensive income (loss)	640	(2,888)	119	(8,788)
Comprehensive income (loss) attributable to non-controlling interests	--	7	2	(6)
Comprehensive income (loss) attributable to Acorn Energy, Inc. shareholders	$640	$(2,881)	$121	$(8,794)

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

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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**
Balances as of December 31, 2015	28,128	$ 281	$ 98,977	$ 1,597	$ (97,191)	$ (3,036)	$ (262)	$ 366	$ 1,292	$ 1,658
Net income	—	—	—	—	113	—	—	113	(206)	(93)
Differences from translation of subsidiaries' financial statements	—	—	—	—	—	—	8	8	(2)	6
Conversion of loan to Common Stock	466	5	110	—	—	—	—	115	—	115
Shares issued in connection with loan from Leap Tide	1,531	15	352	—	—	—	—	367	—	367
Deconsolidation of DSIT	—	—	242	—	—	—	—	242	(371)	(129)
Accrued dividend in OmniMetrix preferred shares	—	—	—	—	—	—	—	—	(75)	(75)
Warrants issued	—	—	(3)	3	—	—	—	—	—	—
Stock option compensation	—	—	243	—	—	—	—	243	—	243
Balances as of September 30, 2016	30,125	$ 301	$ 99,921	$ 1,600	$ (97,078)	$ (3,036)	$ (254)	$ 1,454	$ 638	$ 2,092

The accompanying notes are an integral part of these unaudited 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, 2016		2015	
Cash flows used in operating activities:				
Net loss	$	(93)	$	(8,743)
Adjustments to reconcile net loss to net cash used in operating activities (see Schedule A)		(2,916)		12,447
Net cash provided by (used in) operating activities – continuing operations		(3,009)		3,704
Net cash used in operating activities – discontinued operations		(872)		(2,747)
Net cash provided by (used in) operating activities		(3,881)		957
Cash flows provided by (used in) investing activities:				
Acquisitions of property and equipment		(33)		(156)
Proceeds from the sale of interests in DSIT, net of transaction costs and cash divested		3,947		--
Escrow deposits		(579)		(100)
Release of escrow deposits		100		--
Restricted deposits		(75)		(7,139)
Release of restricted deposits		868		1,700
		(69)		(274)

Amounts funded for severance assets		
Net cash provided by (used in) investing activities – continuing operations	4,159	(5,969)
Net cash provided by investing activities – discontinued operations	900	725
Net cash provided by (used in) investing activities	5,059	(5,244)
Cash flows provided by (used in) financing activities:		
Short-term credit, net	827	382
Proceeds from the exercise of DSIT options	391	--
Repayment of Leap Tide loan	(2,000)	--
Proceeds from Leap Tide transaction	--	2,000
Proceeds from director loans	375	--
Repayments of director loans	(275)	--
Repayments of long-term debt	(43)	(96)
Net cash provided by (used in) financing activities – continuing operations	(725)	2,286
Net cash used in financing activities – discontinued operations	(138)	(2,180)
Net cash provided by (used in) financing activities	(863)	106
Effect of exchange rate changes on cash and cash equivalents – continuing operations	(5)	--
Effect of exchange rate changes on cash and cash equivalents – discontinued operations	18	(160)

Net increase (decrease) in cash and cash equivalents		328		(4,341	)
Cash and cash equivalents at the beginning of the year – discontinued operations		48		192	
Cash and cash equivalents at the beginning of the year – continuing operations		124		4,681	
Cash and cash equivalents at the end of the period – discontinued operations		396		54	
Cash and cash equivalents at the end of the period – continuing operations	$	104	$	478	

The accompanying notes are an integral part of these unaudited 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, 2016	2015
A. Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss from discontinued operations	$423	$4,250
Depreciation and amortization	126	228
Accretion of Leap Tide discount	100	66
Common stock issued for Leap Tide interest accrued	281	--
Conversion to common stock of interest due to director	15	--
Gain on sale of interests in DSIT, net of income taxes and transaction costs	(3,543)	--
Share of income in DSIT	(63)	--
Increase in accrued severance	67	301
Stock-based compensation	243	523
Deconsolidation of USSI	--	401
Deferred taxes	18	42
Other	35	(42)
Change in operating assets and liabilities:		
Decrease (increase) in accounts receivable, unbilled revenue, other current and other assets	(148)	798
Decrease (increase) in inventory	(30)	14
Increase (decrease) in deferred revenue	(1,055)	4,316
Increase in accounts payable, accrued payroll, payroll taxes and social benefits, other current liabilities and other liabilities	615	1,550
	$(2,916)	$12,447
B. Non-cash investing and financing activities:		
Adjustment of paid-in-capital and non-controlling interest from the deconsolidation of DSIT	$242	
Conversion of director loan to common stock	$100	
Accrual of preferred dividends to outside investor in OmniMetrix	$75	
Investment in DSIT from deconsolidation	$5,391	
Liability/discount for put on Initial Shares in Leap Tide transaction		$340
Liability for put on Vested Share Rights in Leap Tide transaction		$111
Value of Initial shares (discount) in Leap Tide transaction		$162
Adjustment of paid-in-capital and non-controlling interest from the deconsolidation of USSI		$541

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

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NOTE 1— BASIS OF PRESENTATION AND LIQUIDITY

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 8 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 (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. 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 nine month period ended September 30, 2015 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, 2015.

On April 21, 2016, the Company closed on a transaction for the sale of a portion of its interests in DSIT Solutions, Ltd. (see Note 3). As a result of the transaction, the Company's holdings in DSIT were reduced from 78.7% (on a fully diluted basis) to 41.2% and, subsequent to the DSIT Transaction, the Company has limited representation on the DSIT Board of directors. Accordingly, following the sale, the Company no longer consolidates the results of DSIT. Operating results for DSIT through April 21, 2016 are consolidated in continuing operations while the Company's share of DSIT's results for the period from April 22, 2016 to September 30, 2016 are included in the Company's unaudited Condensed Consolidated Statements of Operations in the line "Share of income in DSIT" under the equity method of accounting.

The Company currently does not have sufficient cash flow to finance its activities for the next 12 months. On July 12, 2016, the Company and its GridSense subsidiary closed on a transaction for the sale of GridSense's assets (See Note 4). As a result of the transaction, GridSense received gross proceeds of $1,000 of which $100 was set aside as an indemnity escrow. From the proceeds of the sale, GridSense paid off approximately $240 of previously accrued severance and other payroll costs as well as approximately $56 of transaction costs of the sale transaction. Following the sale, GridSense also engaged a third-party liquidation officer to satisfy, to the extent of the funds available from the remaining proceeds, the claims of GridSense creditors, including Acorn which is GridSense's largest creditor. Through October 31, 2016, the liquidator has settled approximately $5,890 of GridSense creditor claims ($5,555 from the Company), while disbursing approximately $535 to the creditors of GridSense ($500 to the Company). As of October 31, 2016, the Company had approximately $230 of unrestricted cash and cash equivalents.

Additional liquidity will be necessary to finance the operating activities of Acorn and the operations of its OmniMetrix subsidiary. The Company will continue to pursue sources of funding, which may include loans from related and/or non-related parties, a sale or partial sale of one or more of its businesses, finding a strategic partner or equity financings. There can be no assurance additional funding will be available at terms acceptable to the Company. There can be no assurance that the Company will be able to successfully utilize any of these possible sources to provide additional liquidity. If additional funding is not available in sufficient amounts, Acorn will not be able to fund its own corporate activities during the next twelve months, which could materially impact its ability to continue operations, and the Company may not be able to fund OmniMetrix as it has historically, which could materially impact its carrying value. As such, these factors raise substantial doubt as to the Company’s ability to continue as a going concern.

NOTE 2—RECENT AUTHORITATIVE GUIDANCE

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-15 "Presentation of Financial Statements—Going Concern," outlining management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern, along with the required disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016 and for annual periods and interim periods thereafter with early adoption permitted. The Company is currently assessing the impact of ASU 2014-15 on its financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 changes the presentation of debt issuance costs in financial statements, by requiring them to be presented in the balance sheet as a direct deduction from the related debt liability, rather than as an asset. Amortization of the costs is reported as interest expense. There is no change to the current guidance on the recognition and measurement of debt issuance costs. For public business entities, ASU 2015-03 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The Company does not expect ASU 2015-03 to have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01 "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. ASU 2016-01 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted under certain circumstances." The Company is currently assessing the impact of ASU 2016-01 on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 with early adoption permitted. Under Accounting Standards Update 2016-02, lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee's obligation to make lease payments arising from a lease measured on a discounted basis, and a right-to-use asset, which is an asset that represents the lessee's right to use or control the use of a specified asset for the lease term. The Company is currently evaluating the effect that the new guidance will have on its financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which includes multiple provisions intended to simplify various aspects of the accounting for share-based payments, including treatment of excess tax benefits and forfeitures, as well as consideration of minimum statutory tax withholding requirements. The ASU will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early application permitted in any interim or annual period. The Company is evaluating the future impact of this ASU on the consolidated financial statements.

Other recently issued accounting updates are not expected to have a material impact on the Company's consolidated financial statements.

NOTE 3—DSIT SOLUTIONS, LTD. ("DSIT")

On April 21, 2016 (the "Closing Date"), the Company closed on a transaction (the "DSIT Transaction") initially entered into on January 28, 2016 for the sale of a portion of its interests DSIT Solutions, Ltd. business to Rafael Advanced Defense Systems Ltd., a major Israeli defense company. At closing, Acorn received gross proceeds of $4,913 before escrow, fees and taxes. From the gross proceeds, the Company deposited approximately $579 to satisfy the escrow requirements in the sale. The Company expects the escrow deposit to be released 18 months from the Closing Date. The Company also paid an Israeli withholding tax of approximately $266 and incurred transaction costs of $184. In connection with the DSIT Transaction, the Company recorded a gain of $3,543. The Company is also eligible to receive its 82.4% pro-rata share of a $1,000 earn-out over a three-year period if certain operating results targets are met. The earn-out is not included in the determination of the gain in the DSIT Transaction and will only be recorded as a gain if and when the parties agree that the earn-out has in fact been earned.

Prior to the Closing Date, all options in the DSIT Key Employee Stock Option Plan were exercised and DSIT received proceeds of $391, and the Company's holdings in DSIT were reduced from 88.3% to 78.7%. As a result of the DSIT Transaction, the Company's holdings in DSIT were reduced from 78.7% to 41.2%, and subsequent to the DSIT Transaction, the Company has limited representation on the DSIT Board of directors. Accordingly, after the Closing Date, the Company no longer consolidates the results of DSIT.

Assets and liabilities related to the deconsolidated operations of DSIT are as follows:

	September 30, 2016	At the Closing Date	December 31, 2015
Current assets:			
Cash and cash equivalents	$ 9	$ 516	7
Restricted deposits	1,885	2,517	2,172
Accounts receivable	4,221	5,166	5,826
Unbilled revenue	4,440	4,779	3,849
Inventory	323	297	230
Other current assets	923	935	698
Total current assets	11,801	14,210	12,782
Property and equipment, net	598	620	654
Severance assets	3,860	3,762	3,558
Restricted deposits	1,652	1,815	2,951
Due from Acorn	1,066	916	802
Goodwill	--	536	516
Other assets	86	80	124
Total assets	$ 19,063	$ 21,939	21,387

Current liabilities:			
Short-term bank credit and current maturities of long-term bank debt	$ 1,317	$ 2,655	1,917
Accounts payable	984	2,072	1,869
Accrued payroll, payroll taxes and social benefits	1,106	1,286	1,261
Deferred revenue	1,454	2,219	3,487
Other current liabilities	2,351	1,615	1,417
Total current liabilities	7,212	9,847	9,951
Accrued severance	5,343	5,209	4,894
Other long-term liabilities	43	38	82
Total liabilities	$ 12,598	$ 15,094	15,017