ACORN ENERGY, INC.
Form 10-Q
August 09, 2012
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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 June 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)

4 West Rockland Road, Montchanin, Delaware 19710
(Former address)

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 August 2, 2012
Common Stock, $0.01 par value per share	17,926,752 shares

ACORN ENERGY, INC.
Quarterly Report on Form 10-Q
for the Quarterly Period Ended June 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 June 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$34,280	$14,753
Short-term deposits	18,000	18,015
Restricted deposit	2,223	1,888
Funds held in escrow	5,961	5,961
Accounts receivable	4,965	4,476
Unbilled revenue	3,778	3,997
Inventory	2,144	2,652
Other current assets	922	2,765
Total current assets	72,273	54,507
Property and equipment, net	635	842
Severance assets	2,620	2,716
Restricted deposit	271	269
Intangible assets, net	4,780	10,056
Goodwill	4,637	6,562
Deferred taxes	440	423
Other assets	149	99
Total assets	$85,805	$75,474
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term bank credit and current maturities of long-term debt	$677	$149
Accounts payable	2,052	2,164
Accrued payroll, payroll taxes and social benefits	1,907	2,139
Deferred revenue	2,876	1,597
Other current liabilities	4,544	3,139
Total current liabilities	12,056	9,188
Long-term liabilities:		
Accrued severance	3,837	3,949
Long-term debt	141	75
Other long-term liabilities	204	210
Total long-term liabilities	4,182	4,234
Commitments and contingencies		
Equity:		
Acorn Energy, Inc. shareholders		
Common stock - $0.01 par value per share:		

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Authorized – 30,000,000 shares; Issued –18,325,529 and 18,728,672 shares at December 31, 2011 and June 30, 2012, respectively	183	187
Additional paid-in capital	84,614	84,244
Warrants	427	55
Accumulated deficit	(13,022)	(20,312)
Treasury stock, at cost – 801,920 shares at December 31, 2011 and June 30, 2012	(3,036)	(3,036)
Accumulated other comprehensive income	485	484
Total Acorn Energy, Inc. shareholders' equity	69,651	61,622
Non-controlling interests	(84)	430
Total equity	69,567	62,052
Total liabilities and equity	$85,805	$75,474

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)

	Six months ended June 30, 2011	Six months ended June 30, 2012	Three months ended June 30, 2011	Three months ended June 30, 2012
Revenues:				
Projects	$4,857	$7,618	$2,509	$4,582
Products	2,102	2,176	1,482	1,196
Services	243	341	116	122
Total revenues	7,202	10,135	4,107	5,900
Cost of sales:				
Projects	3,371	5,773	1,904	3,527
Products	1,115	1,322	758	668
Services	195	251	98	127
Total cost of sales	4,681	7,346	2,760	4,322
Gross profit	2,521	2,789	1,347	1,578
Operating expenses:				
Research and development expenses, net of credits	874	3,017	384	1,699
Selling, general and administrative expenses	5,467	8,619	2,724	4,390
Total operating expenses	6,341	11,636	3,108	6,089
Operating loss	(3,820)	(8,847)	(1,761)	(4,511)
Finance income (expense), net	(217)	107	(100)	130
Gain on sale of HangXing	492	—	—	—
Loss from continuing operations before taxes	(3,545)	(8,740)	(1,861)	(4,381)
Income tax benefit (expense)	(39)	989	26	1,064
Net loss from continuing operations	(3,584)	(7,751)	(1,835)	(3,317)
Loss from discontinued operations, net of income taxes	(1,404)	—	(568)	—
Non-controlling interest share of loss from discontinued operations	389	—	157	—
Net loss	(4,599)	(7,751)	(2,246)	(3,317)
Net loss attributable to non-controlling interests	303	461	167	205
Net loss attributable to Acorn Energy, Inc. shareholders	$(4,296)	$(7,290)	$(2,079)	$(3,112)
Basic and diluted net loss per share attributable to Acorn Energy, Inc. shareholders:				
From continuing operations	$(0.19)	$(0.41)	$(0.10)	$(0.17)
From discontinued operations	$(0.06)	$—	$(0.02)	$—
Basic and diluted net loss per share attributable to Acorn Energy, Inc. shareholders	$(0.25)	$(0.41)	$(0.12)	$(0.17)
Weighted average number of shares outstanding attributable to Acorn Energy, Inc. shareholders – basic and diluted	17,410	17,796	17,489	17,912
Dividends declared per common share	$—	$0.070	$—	$0.035

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 COMPREHENSIVE LOSS
(IN THOUSANDS)

	Six months ended June 30,		Three months ended June 30,	
	2011	2012	2011	2012
Net loss attributable to Acorn Energy, Inc. shareholders	$(4,296)	$(7,290)	$(2,079)	$(3,112)
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation adjustments	292	(1)	185	(202)
Comprehensive loss, net of income taxes	(4,004)	(7,291)	(1,894)	(3,314)
Comprehensive loss attributable to non-controlling interests	(6)	—	(2)	6
Comprehensive loss attributable to Acorn Energy, Inc. shareholders	(4,010)	(7,291)	(1,896)	(3,308)

The accompanying notes are an integral part of these 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
As of December 31, 2011	18,326	$ 183	$ 84,614	$ 427	$ (13,022)	$ (3,036)	$ 485	$ 69,651	$ (84)	$ 69,567
Net loss	—	—	—	—	(7,290)	—	—	(7,290)	(461)	(7,751)
Differences from translation of subsidiaries' financial statements	—	—	—	—	—	—	(1)	(1)	—	(1)
Comprehensive income	—	—	—	—	—	—	—	(7,291)	(461)	(7,752)
Dividends	—	—	(1,248)	—	—	—	—	(1,248)	—	(1,248)
Adjustment of non-controlling interests in USSI following additional investment by the Company	—	—	(975)	—	—	—	—	(975)	975	—
Stock option compensation	—	—	182	—	—	—	—	182	—	182
Exercise of warrants and options	403	4	1,671	(372)	—	—	—	1,303	—	1,303
Balances as of June 30, 2012	18,729	$ 187	$ 84,244	$ 55	$ (20,312)	$ (3,036)	$ 484	$ 61,622	$ 430	$ 62,052

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)

	Six months ended	
	June 30, 2011	June 30, 2012
Cash flows used in operating activities:		
Net loss before non-controlling interests	$(4,988)	$(7,751)
Less net loss from discontinued operations	(1,404)	—
Net loss from continuing operations	(3,584)	(7,751)
Adjustments to reconcile net loss to net cash used in operating activities (see Schedule A)	787	(2,157)
Net cash used in operating activities – continuing operations	(2,797)	(9,908)
Cash flows provided by (used in) investing activities:		
Acquisitions of property and equipment	(393)	(370)
Acquisition of license	—	(150)
Restricted deposits	(547)	(45)
Release of restricted deposits	342	386
Maturity of short-term deposits	—	8,000
Short-term deposit	—	(8,015)
Amounts funded for severance assets	(145)	(169)
Proceeds from the sale of HangXing	492	—
Acquisition of OmniMetrix, net of cash acquired (see Schedule C)	—	(7,835)
Net cash used in investing activities – continuing operations	(251)	(8,198)
Cash flows provided by (used in) financing activities:		
Proceeds from employee stock option and warrant exercises	193	1,303
Short-term bank credit, net	(126)	(510)
Proceeds from borrowings of long-term debt	76	16
Repayments of long-term debt	(225)	(95)
Dividends paid	—	(2,123)
Other	24	—
Net cash used in financing activities – continuing operations	(58)	(1,409)
Discontinued operations:		
Operating cash flows	(516)	—
Investing cash flows	455	—
Financing cash flows	489	—
Net cash provided by discontinued operations	428	—
Effect of exchange rate changes on cash and cash equivalents	77	(12)
Net decrease in cash and cash equivalents	(2,601)	(19,527)
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	$4,755	14,753
Cash and cash equivalents of discontinued operations at end of period	$(1,363)	—
Cash and cash equivalents held by continuing operations at end of the period	$3,392	14,753

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)

	Six months ended June 30, 2011	Six months ended June 30, 2012
A. Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	$402	$661
Increase in accrued severance	190	211
Stock-based compensation	265	181
Deferred taxes	(136)	(240)
Gain on the sale of HangXing	(492)	—
Other	36	(35)
Change in operating assets and liabilities:		
Decrease (increase) in accounts receivable, unbilled work-in process, other current and other assets	1,545	(925)
Increase in inventory	(209)	(275)
Increase in accounts payable, accrued payroll, payroll taxes and social benefits, advances from customers, other current liabilities and other liabilities	(814)	(1,735)
	$787	$(2,157)
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 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.

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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 six month period ended June 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.

In August 2011 we sold our interest in CoaLogix whose results are reflected as discontinued operations. Accordingly, certain reclassifications have been made to the Company's condensed consolidated financial statements for the three and six month periods ended June 30, 2011 to conform to the current period's consolidated financial statement presentation.

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

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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 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.

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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 June 30, 2012 have been included in the Company's consolidated statement of comprehensive income. In the period since our acquisition, the Company recorded $382 of revenues and a net loss of $830 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	

The goodwill is not amortized for financial statement purposes in accordance with generally accepted accounting principles. The goodwill 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 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 our 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 owns approximately 92% of USSI on a fully diluted basis. See Note 12 - Subsequent Events.

In connection with the USSI Purchase Agreement, the Company established a new 2012 Stock Plan (the “USSI 2012 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 USSI 2012 Plan provides and as determined by USSI's board of directors or by such committee designated by USSI's board to administer the USSI 2012 Plan, if any. If options to purchase all shares of USSI Common Stock available under the USSI 2012 Plan are granted and exercised, the Company would own approximately 81% of USSI on a fully diluted basis. To date, no options have been issued under the USSI 2012 Plan.

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NOTE 5—NON-CONTROLLING INTERESTS

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

	Six months ended June 30,		Three months ended June 30,	
	2011	2012	2011	2012
Net income (loss) attributable to NCI in DSIT	$(23)	$65	$(24)	$57
Net loss attributable to NCI in USSI	(280)	(526)	(143)	(262)
Net loss attributable to NCI	$(303)	$(461)	$(167)	$(205)

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NOTE 6—INVENTORY

The composition of inventory is as follows:

	As of December 31, 2011	As of June 30, 2012
Raw materials	$1,663	$1,696
Work-in-process	481	540
Finished goods	—	416
	$2,144	$