ACORN ENERGY, INC.
Form 10-Q
May 15, 2017

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, 2017

Commission file number: **001-33886**

ACORN ENERGY, INC.

(Exact name of registrant as specified in charter)

Delaware	**22-2786081**
(State or other jurisdiction	**(I.R.S. Employer**
of incorporation or organization)	**Identification No.)**
3844 Kennett Pike, Wilmington, Delaware	**19807**
(Address of principal executive offices)	**(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, smaller reporting company, or an emerging company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]
Emerging growth company [ ]	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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 11, 2017
Common Stock, $0.01 par value per share	29,411,463

ACORN ENERGY, INC.

Quarterly Report on Form 10-Q

for the Quarterly Period Ended March 31, 2017

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 the Securities and Exchange Commission.

2

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 March 31, 2017	**As of December 31, 2016**
ASSETS		
Current assets:		
Cash and cash equivalents	$663	$ 222
Escrow deposit	579	579
Accounts receivable, net of provisions for doubtful accounts of $11 at March 31, 2017 and December 31, 2016	654	1,005
Inventory, net	188	202
Other current assets	897	932
Investment in DSIT	5,694	5,658
Current assets – discontinued operations	112	119
Total current assets	8,787	8,717
Property and equipment, net	194	214
Other assets	319	309
Total assets	$9,300	$ 9,240
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term credit	$274	$ 376
Accounts payable	375	708
Accrued payroll, payroll taxes and social benefits	193	327
Deferred revenue	2,143	2,149
Other current liabilities	579	629
Current liabilities – discontinued operations	925	997
Total current liabilities	4,489	5,186
Non-current liabilities:		
Due to Acorn directors	1,107	165
Due to DSIT	1,241	1,171
Other non-current liabilities	850	831
Total non-current liabilities	3,198	2,167
Commitments and contingencies		

Equity:		
Acorn Energy, Inc. shareholders		
Common stock - $0.01 par value per share:		
Authorized – 42,000,000 shares; Issued – 30,168,939 and 30,124,494 shares at March 31, 2017 and December 31, 2016, respectively	302	301
Additional paid-in capital	99,787	99,767
Warrants	1,600	1,600
Accumulated deficit	(97,266)	(97,046)
Treasury stock, at cost – 801,920 shares at March 31, 2017 and December 31, 2016	(3,036)	(3,036)
Accumulated other comprehensive loss	(254)	(254)
Total Acorn Energy, Inc. shareholders' equity	1,133	1,332
Non-controlling interests	480	555
Total equity	1,613	1,887
Total liabilities and equity	$9,300	$9,240

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 March 31, 2017	2016
Revenue	$1,096	$4,761
Cost of sales	482	3,130
Gross profit	614	1,631
Operating expenses:		
Research and development expenses, net of credits	92	365
Selling, general and administrative expenses	859	2,625
Total operating expenses	951	2,990
Operating loss	(337)	(1,359)
Finance expense, net	(34)	(273)
Loss before income taxes	(371)	(1,632)
Income tax expense	—	(8)
Net loss after income taxes	(371)	(1,640)
Share of income in DSIT	36	—
Loss before discontinued operations	(335)	(1,640)
Income (loss) from discontinued operations, net of income taxes	65	(1,386)
Net loss	(270)	(3,026)
Non-controlling interest share of net loss – continuing operations	50	51
Net loss attributable to Acorn Energy, Inc. shareholders	$(220)	$(2,975)
Basic and diluted net loss per share attributable to Acorn Energy, Inc. shareholders:		
Continuing operations	$(0.01)	$(0.06)
Discontinued operations	0.00	(0.05)
Total attributable to Acorn Energy, Inc. shareholders	$(0.01)	$(0.11)
Weighted average number of shares outstanding attributable to Acorn Energy, Inc. shareholders – basic and diluted	29,335	27,325

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

ACORN ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

(IN THOUSANDS)

	Three months ended March 31,	
	2017	**2016**
Net loss attributable to Acorn Energy, Inc. shareholders	$(220)	$(2,975)
Other comprehensive income (loss):		
Foreign currency translation adjustments	-	19
Other comprehensive loss attributable to non-controlling interests	-	(1)
Comprehensive loss attributable to Acorn Energy, Inc. shareholders	$(220)	$(2,957)

The accompanying notes are an integral part of these unaudited 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 Loss	Total Acorn Energy, Inc. Shareholders' Equity	Non-controlling interests	Total Equity
Balances as of December 31, 2016	30,125	$ 301	$ 99,767	$ 1,600	$ (97,046)	$ (3,036)	$ (254)	$ 1,332	$ 555	$ 1,887
Net loss	—	—	—	—	(220)	—	—	(220)	(50)	(270)
Accrued dividend in OmniMetrix preferred shares	—	—	—	—	—	—	—	—	(25)	(25)
Shares granted in lieu of director fees	44	1	7	—	—	—	—	8	—	8
Stock option compensation	—	—	13	—	—	—	—	13	—	13
Balances as of March 31, 2017	30,169	$ 302	$ 99,787	$ 1,600	$ (97,266)	$ (3,036)	$ (254)	$ 1,133	$ 480	$ 1,613

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

6

ACORN ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(IN THOUSANDS)

	Three months ended March 31, 2017	2016
Cash flows used in operating activities:		
Net loss	$(270)	$(3,026)
Adjustments to reconcile net loss to net cash used in operating activities (see Schedule A)	(87)	2,304
Net cash used in operating activities – continuing operations	(357)	(722)
Net cash used in operating activities – discontinued operations	(7)	(401)
Net cash used in operating activities	(364)	(1,123)
Cash flows provided by (used in) investing activities:		
Acquisitions of property and equipment	—	(24)
Restricted deposits	—	(82)
Release of restricted deposits	—	818
Release of escrow deposits	—	50
Amounts funded for severance assets	—	(69)
Net cash provided by (used in) investing activities – continuing operations	—	693
Net cash used in investing activities – discontinued operations	—	—
Net cash provided by (used in) investing activities	—	693
Cash flows provided by (used in) financing activities:		
Short-term credit, net	(102)	16
Proceeds from loans from directors	900	375
Repayments of long-term debt	—	(32)
Net cash provided by financing activities – continuing operations	798	359
Net cash used in financing activities – discontinued operations	—	(17)
Net cash provided by financing activities	798	342
Effect of exchange rate changes on cash and cash equivalents – continuing operations	—	3
Effect of exchange rate changes on cash and cash equivalents – discontinued operations	—	51
Net increase (decrease) in cash and cash equivalents	434	(34)
Cash and cash equivalents at the beginning of the year – discontinued operations	19	48
Cash and cash equivalents at the beginning of the year – continuing operations	222	124
Cash and cash equivalents at the end of the period – discontinued operations	12	75
Cash and cash equivalents at the end of the period – continuing operations	$663	$63

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

7

ACORN ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(IN THOUSANDS)

	Three months ended March 31,	
	2017	**2016**
A. Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss (income) from discontinued operations	$(65)	$1,386
Depreciation and amortization	20	72
Increase in accrued severance	—	67
Accretion of Leap Tide discount	—	40
Stock-based compensation	13	220
Deferred taxes	—	15
Director fees paid in common stock	8	—
Share of income in DSIT	(36)	—
Other	—	35
Change in operating assets and liabilities:		
Decrease (increase) in accounts receivable, unbilled revenue, other current and other assets	376	54
Decrease (increase) in inventory	14	(96)
Decrease in deferred revenue	30	(1,174)
Increase in accounts payable, accrued payroll, payroll taxes and social benefits, other current liabilities and all non-current liabilities	(447)	1,685
	$(87)	$2,304

B. Non-cash investing and financing activities:		
Accrual of preferred dividends to outside investor in OmniMetrix	$25	$25

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

8

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 three month period ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. 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, 2016 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, 2016.

The Company had $333 of non-escrow corporate cash and cash equivalents on May 10, 2017. The Company also has a commitment from a director that would allow it to borrow up to an additional $1,000 on or after July 7, 2017. That commitment amount would be reduced to the extent that other additional liquidity is provided to the Company in the form of loans from the directors or other lenders with a maturity date no earlier than April 2018, or from any net proceeds from the sale by the Company of any of its DSIT shares. Such cash together with the expected October 2017 receipt of up to $579 of escrowed funds from the DSIT Transaction and reduced cash need from OmniMetrix based on their expected continued growth is expected to finance the Company’s operations only through the first quarter of 2018.

In February 2016, OmniMetrix signed a Loan and Security Agreement (subsequently amended in September 2016) with a lender providing OmniMetrix with access to accounts receivable formula-based financing of up to $500. Debt incurred under this financing arrangement bears interest at the greater of prime (4.00% at March 31, 2017) plus 2% or 6% per year. In addition, OmniMetrix is required to pay a monthly service charge of 1.0% of the average aggregate principal amount outstanding for the prior month. Amounts available under the financing arrangement are based on 75% of all eligible invoices. OmniMetrix also agreed to maintain a minimum loan balance of $150 in its line-of-credit with the lender for a minimum of one year beginning October 1, 2016. OmniMetrix’s loan balance under the Loan and Security Agreement was $274 at March 31, 2017 and $376 at December 31, 2016.

The Company currently does not have sufficient cash flow for the next twelve months from the date of this report. This is due to the fact that loans from directors and balances due to DSIT are due on the earlier of April 30, 2018 or the sale of the Company's investment in DSIT which is currently being pursued. The Company cannot at this time determine whether it will be successful in selling its investment in DSIT in a timely manner or at a price that would provide sufficient cash to pay its debts and allow for the normal continuation of operations. As such, these factors raise substantial doubt as to the Company's ability to continue as a going concern.

If the Company is unsuccessful in selling its DSIT investment, additional liquidity will be necessary to finance its operating activities and the operations of its OmniMetrix subsidiary. The Company will need to pursue sources of funding, which may include loans from related and/or non-related parties, a sale, partial sale or finding a strategic partner for OmniMetrix or equity financings. There can be no assurance additional funding will be available at terms acceptable to the Company. In addition, 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, the Company will not be able to fund its 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.

NOTE 2—RECENT AUTHORITATIVE GUIDANCE

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with adjustment of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The FASB issued several subsequent standards in 2016 containing implementation guidance related to the new standard. These standards provide additional guidance related to principal versus agent considerations, licensing, and identifying performance obligations. Additionally, these standards provide narrow-scope improvements and practical expedients as well as technical corrections and improvements. Overall, the new guidance is to be effective for the fiscal year beginning after December 15, 2017. Companies are able to early adopt the pronouncement, however not before fiscal years beginning after December 15, 2016. The Company currently anticipates that it will adopt this standard using the modified retrospective method. The Company is creating an implementation team to provide training and to review contracts to assess the impact, if any; the new revenue standard will have on its consolidated financial statements. The Company is monitoring for any additional implementation or other guidance that may be issued in 2017 with respect to the new revenue standard and adjust its assessment and implementation plans accordingly.

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 August 2016, the FASB issued ASU No. 2016-15 Cash Flow Statement (Topic 230) - Classification of Certain Cash Receipts and Cash Payments. This new guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice, including: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, and is not expected to have a material impact on the Company’s consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash a consensus of the FASB Emerging Issues Task Force. This new guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019 and is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805) – Clarifying the Definition of a Business. This new guidance clarifies the definition of a business in a business combination. The guidance is effective beginning the first quarter of fiscal year 2018. Early adoption is permitted. The Company is evaluating the impact of adopting this guidance on its consolidated financial statements.

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

NOTE 3—INVESTMENT IN DSIT SOLUTIONS, LTD. (“DSIT”)

On April 21, 2016, the Company closed on a transaction (the “DSIT Transaction”) for the sale of a portion of its interests DSIT Solutions, Ltd. business to Rafael Advanced Defense Systems Ltd., a major Israeli defense company. 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, the Company no longer consolidates the results of DSIT, but rather accounts for its investment in DSIT under the equity method. DSIT’s results and the Company’s share of its net income for the three months ended March 31, 2017 can be seen below:

	Three months ending March 31, 2017
Revenue	$ 4,061
Cost of sales	2,766
Gross profit	1,295
Research and development expenses, net	243
Selling, general and administrative expenses	953
Operating income	99
Finance income, net	8
Income before income taxes	107
Income tax expense	(21)
Net income	$ 86