

ACORN ENERGY, INC.  
Form 10-Q  
August 14, 2018

**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, 2018**

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.)**

**1000 N West Street, Suite 1200, Wilmington, Delaware 19801**

**(Address of principal executive offices)**

**(Zip Code)**

302-656-1708

(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 ☒ 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 ☒ 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 ☒

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 ☒

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 8,

Edgar Filing: ACORN ENERGY, INC. - Form 10-Q

	2018
Common Stock, \$0.01 par value per share	29,555,786

**ACORN ENERGY, INC.**

**Quarterly Report on Form 10-Q**

**for the Quarterly Period Ended June 30, 2018**

**TABLE OF CONTENTS**

**PAGE**

**PART I**  
**Financial**  
**Information**

Item 1.  
Unaudited  
Condensed  
Consolidated  
Financial  
Statements:

Condensed  
Consolidated  
Balance  
Sheets as of 3  
June 30, 2018  
and December  
31, 2017

Condensed  
Consolidated  
Statements of  
Operations for  
the three and 4  
six months  
ended June  
30, 2018 and  
2017

Condensed 5  
Consolidated  
Statement of  
Changes in  
Equity  
(Deficit) for

the six months  
ended June  
30, 2018

Condensed  
Consolidated  
Statements of  
Cash Flows 6  
for the six  
months ended  
June 30, 2018  
and 2017

Notes to  
Condensed  
Consolidated 7  
Financial  
Statements

Item 2.  
Management's  
Discussion  
and Analysis 19  
of Financial  
Condition and  
Results of  
Operations

Item 3.  
Quantitative  
and  
Qualitative 27  
Disclosures  
About Market  
Risk

Item 4.  
Controls and 28  
Procedures

**PART II**  
**Other**  
**Information**

Item 6. 29  
Exhibits

**Signatures** 30

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.

**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 June 30, 2018	As of December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,781	\$ 481
Accounts receivable, net	754	1,103
Inventory, net	257	229
Investment in DSIT	—	5,800
Deferred charges	917	999
Other current assets	176	91
Total current assets	3,885	8,703
Property and equipment, net	106	139
Other assets	485	380
Total assets	\$4,476	\$ 9,222
<b>LIABILITIES AND EQUITY (DEFICIT)</b>		
Current liabilities:		
Short-term credit	\$ 190	\$ 313
Accounts payable	423	489
Accrued expenses	499	466
Deferred revenue	2,762	2,753
Due to Acorn directors	180	1,690
Due to DSIT		1,624
Other current liabilities	186	185
Total current liabilities	4,240	7,520
Non-current liabilities:		
Deferred revenue	965	811
Due to Acorn directors	163	
Other non-current liabilities	47	139
Total non-current liabilities	1,175	950
Commitments and contingencies		
Equity (Deficit):		

Edgar Filing: ACORN ENERGY, INC. - Form 10-Q

Acorn Energy, Inc. shareholders

Common stock - \$0.01 par value per share:

Authorized – 42,000,000 shares; Issued – 30,339,228 and 30,302,271 shares at June 30, 2018 and December 31, 2017, respectively	303	303
Additional paid-in capital	99,846	99,819
Warrants	1,600	1,600
Accumulated deficit	(99,823)	(98,215 )
Treasury stock, at cost – 801,920 shares at June 30, 2018 and December 31, 2017	(3,036 )	(3,036 )
Total Acorn Energy, Inc. shareholders' equity (deficit)	(1,110 )	471
Non-controlling interests	171	281
Total equity (deficit)	(939 )	752
Total liabilities and equity (deficit)	\$4,476	\$ 9,222

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)**

	<b>Six months ended</b>		<b>Three months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Revenue	\$2,439	\$2,141	\$1,230	\$1,045
Cost of sales	958	933	494	451
Gross profit	1,481	1,208	736	594
Operating expenses:				
Research and development expenses	260	268	131	176
Selling, general and administrative expenses	2,133	1,784	1,149	925
Total operating expenses	2,393	2,052	1,280	1,101
Operating loss	(912 )	(844 )	(544 )	(507 )
Finance expense, net	(79 )	(86 )	(27 )	(52 )
Loss before income taxes	(991 )	(930 )	(571 )	(559 )
Income tax expense	—	—	—	—
Net loss after income taxes	(991 )	(930 )	(571 )	(559 )
Shares of income in DSIT	33	69		33
Impairment of investment in DSIT	(33 )			
Loss on sale of interest in DSIT, net of withholding taxes and transaction costs	(829 )			
Loss before discontinued operations	(1,820 )	(861 )	(571 )	(526 )
Income from discontinued operations, net of income taxes	—	65	—	
Net loss	(1,820 )	(796 )	(571 )	(526 )
Non-controlling interest share of net loss	60	85	33	35
Net loss attributable to Acorn Energy, Inc. shareholders	\$(1,760 )	\$(711 )	\$(538 )	\$(491 )
Basic and diluted net loss per share attributable to Acorn Energy, Inc. shareholders:				
Continuing operations	\$(0.06 )	\$(0.02 )	\$(0.02 )	\$(0.02 )
Discontinued operations		\$0.00	—	
Total attributable to Acorn Energy, Inc. shareholders	\$(0.06 )	\$(0.02 )	\$(0.02 )	\$(0.02 )
Weighted average number of shares outstanding attributable to Acorn Energy, Inc. shareholders – basic	29,531	29,368	29,537	29,402
Weighted average number of shares outstanding attributable to Acorn Energy, Inc. shareholders –diluted	29,531	29,368	29,537	29,402

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 (DEFICIT) (UNAUDITED)****(IN THOUSANDS)**

	Acorn Energy, Inc. Shareholders						Total Acorn Energy, Inc. Shareholders Equity (Deficit)	Non-controlling interests	Total Equity (Deficit)
	Number of Shares	Common Stock	Additional Paid-In Capital	Warrants	Accumulated Deficit	Treasury Stock			
Balances as of December 31, 2017	30,302	\$ 303	\$ 99,819	\$ 1,600	\$ (98,215 )	\$ (3,036 )	\$ 471	\$ 281	\$ 752
Adjustment of retained earnings in accordance with ASC 606 (see Note 10)	—	—	—	—	152	—	152	—	152
Net loss	—	—	—	—	(1,760 )	—	(1,760 )	(60 )	(1,820 )
Accrued dividend in OmniMetrix preferred shares	—	—	—	—	—	—	—	(50 )	(50 )
Shares granted in lieu of director fees	37	*	9	—	—	—	9	—	9
Stock option compensation	—	—	18	—	—	—	18	—	18
Balances as of June 30, 2018	30,339	\$ 303	\$ 99,846	\$ 1,600	\$ (99,823 )	\$ (3,036 )	\$ (1,110 )	\$ 171	\$ (939 )

\* Less than \$1

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

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

	Six months ended June 30,	
	2018	2017
Cash flows used in operating activities:		
Net loss	\$(1,820)	\$(796)
Income from discontinued operations	—	(65 )
Depreciation and amortization	33	40
Loss on sale of investment in DSIT, net of income taxes and transaction costs	829	—
Impairment of investment in DSIT	33	—
Share of income in DSIT	(33 )	(69 )
Stock-based compensation	18	18
Director fees paid in common stock	9	16
Change in operating assets and liabilities:		
Decrease in accounts receivable	349	411
Increase in inventory	(28 )	(2 )
Decrease in deferred charges	64	—
Increase in other current assets and other assets	(20 )	—
Decrease in accounts payable and accrued expenses	(33 )	(441)
Increase in deferred revenue	163	124
Decrease in amounts due to DSIT and directors	(1,381)	—
Decrease in other current liabilities and non-current liabilities	(91 )	—
Net cash used in operating activities – continuing operations	(1,908)	(764)
Net cash used in operating activities – discontinued operations	—	(7 )
Net cash used in operating activities	(1,908)	(771)
Cash flows provided by investing activities:		
Proceeds from the sale of interests in DSIT, net of transaction costs	4,971	—
Net cash provided by investing activities – continuing operations	4,971	—
Net cash provided by investing activities – discontinued operations	—	50
Net cash provided by investing activities	4,971	50
Cash flows provided by (used in) financing activities:		
Short-term credit, net	(123 )	(91 )
Proceeds from loans from directors	—	900
Repayment of director loans	(1,300)	—
Repayments of loans from DSIT	(340 )	—
Net cash provided by (used in) financing activities	(1,763)	809
Net increase in cash and cash equivalents	1,300	88
Cash and cash equivalents at the beginning of the year – discontinued operations	—	19

Edgar Filing: ACORN ENERGY, INC. - Form 10-Q

Cash and cash equivalents at the beginning of the year – continuing operations	481	222
Cash and cash equivalents at the end of the period – discontinued operations	—	12
Cash and cash equivalents at the end of the period – continuing operations	\$1,781	\$317

Non-cash investing and financing activities:

Accrual of preferred dividends to outside investor in OmniMetrix and subsequent conversion to loan	\$50	\$50
--	------	------

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

## **NOTE 1— BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Acorn Energy, Inc. and its subsidiaries (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Article 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 six-month period ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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 six-month period ended June 30, 2018 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, 2017.

## NOTE 2—RECENT AUTHORITATIVE GUIDANCE

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). This update outlines a new comprehensive revenue recognition model that supersedes most current revenue recognition guidance and requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has issued several updates to ASU 2014-09, which collectively with ASU 2014-09, represent the FASB Accounting Standards Codification Topic 606 (“ASC 606”). On January 1, 2018, we adopted ASC 606 for all contracts using the modified retrospective method, which means the historical periods are presented under the previous revenue standards with the cumulative net income effect being adjusted through retained earnings. See Note 10.

In February 2016, the FASB issued ASU 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 ASU 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. In September 2017, the FASB issued ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customer (Topic 606), Leases (Topic 840) and Leases (Topic 842), which provides additional implementation guidance on the previously issued ASU 2016-02 Leases (Topic 842). The Company is currently evaluating the effect that the new guidance will have on its financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, which simplifies the accounting for nonemployee share-based payment transactions. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The standard will be effective in the first quarter of fiscal year 2020, although early adoption is permitted (but no sooner than the adoption of Topic 606). The Company is currently evaluating the effect the adoption of this ASU will have on its financial statements.

Other 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 February 14, 2018 (the “Closing Date”), the Company closed on a transaction (the “2018 DSIT Transaction”) initially entered into on January 18, 2018 for the sale of the Company’s remaining 41.15% interest in its DSIT Solutions Ltd. business to an Israeli investor group, and received gross proceeds of \$5,800 before transaction costs, professional fees and withholding taxes. From the gross proceeds, the Company paid \$388 of withholding taxes, paid or accrued \$441 of transaction costs and recorded a loss of \$829 as the carrying value of the Company’s investment in DSIT had previously been written down to the gross proceeds of the 2018 DSIT Transaction. From the proceeds, the Company also repaid \$1,600 of amounts due to DSIT and \$1,428 of loan principal and interest due to directors.

The Company’s share of DSIT’s net income for the period from January 1, 2018 to the Closing Date and the six-month period ended June 30, 2017 can be seen below:

	Period from January 1, 2018 to the Closing Date	Six months ending June 30, 2017
Revenue	\$ 4,481	\$ 8,062
Cost of sales	2,842	5,315
Gross profit	1,639	2,747
Net income	\$ 160	\$ 169
Acorn’s share of net income in DSIT	\$ 33	\$ 69

The activity of the Company’s Investment in DSIT for the period from January 1, 2018 to June 30, 2018 can be seen below:

	<b>Equity Investment balance in</b>
	<b>DSIT</b>
Balance at December 31, 2017	\$ 5,800
Acorn’s share of net income in DSIT for the period from January 1, 2018 to the Closing Date	33



Impairment	(33	)
Sale of Investment in DSIT	(5,800	)
Balance at June 30, 2018	\$ —	

**NOTE 4—Discontinued Operations**

In April 2016, the Company announced that it had decided to cease operations of its GridSense activities. As a result of this decision, GridSense activities are reported as a discontinued operation.

GridSense’s operating results for the six months ended June 30, 2018 and 2017 are included in “Income from discontinued operations, net of income taxes” in the Company’s Condensed Consolidated Statements of Operations. Summarized financial information for GridSense’s operations for the six months ended June 30, 2018 and 2017 are presented below:

	Six months ended June 30, 20182017
Revenue	\$—\$ —
Gross profit	\$—\$ —
Income from discontinued operations, net of income taxes	\$—\$ 65

**NOTE 5—Loans from Directors AND OTHER COMMITMENTS**

**(a) Director Loans to Acorn**

On February 16, 2017, the Company secured commitments for \$1,900 in funding in the form of loans from members of the Company's Board of Directors, of which \$900 was immediately funded and an additional \$400 was funded in the third quarter of 2017. On February 22, 2018, following the receipt of the proceeds from the 2018 DSIT Transaction (see Note 3), the Company repaid in full \$1,300 of principal and \$128 accrued interest due through that date with respect to these loans.

Prior to the repayment of these loans on February 22, 2018, the Company accrued \$21 of interest expense in the six months ended June 30, 2018 compared to \$41 of interest expense accrued in the six months ended June 30, 2017, with regard to these director loans.

**(b) Director Investment and Loans to OmniMetrix Holdings**

In 2015, one of the Company's directors (the "Director") acquired a 20% interest in the Company's OmniMetrix Holdings, Inc. subsidiary ("Holdings") through the purchase of \$1,000 of OmniMetrix Preferred Stock ("Preferred Stock"). Holdings is the holder of 100% of the membership interests OmniMetrix, LLC through which the Company operates its Power Generation and Cathodic Protection monitoring activities. The \$1,000 investment by the director was recorded as an increase in non-controlling interests.

A dividend of 10% per annum accrued on the Preferred Stock. The dividend was payable on the first anniversary of the funding of the investment and quarterly thereafter for so long as the Preferred Stock is outstanding and has not been converted to Common Stock. Through December 31, 2016, a dividend payable of \$115 was recorded with respect to the Preferred Stock. On December 31, 2016, the Director agreed to treat the \$115 of accrued dividends and all subsequent accrued and unpaid dividends as a loan to Holdings which bears interest at 8% per year. In December 2016, the Director provided Holdings with an additional \$50 loan under the same terms as the abovementioned accrued dividends.

On May 14, 2018, Holdings and the Director entered into an agreement whereby effective May 1, 2018, the dividend on the Preferred Stock was reduced to 8%. In addition, all the amounts due to the Director (accrued dividends, loan and accrued interest) and all future dividends that shall accrue on the Preferred Stock through June 30, 2020 will be paid by Holdings to the Director as follows:

In the year ending June 30, 2019    \$180  
In the year ending June 30, 2020    \$323

At June 30, 2018, the obligation to the Director was \$343 including accrued interest on unpaid balances of \$27.

The payments in the agreement will be made only to the extent permitted under OmniMetrix's credit facility.

(c) OmniMetrix Amounts due to Acorn

OmniMetrix owes Acorn approximately \$3,533 for loans, accrued interest and expenses advanced to it by Acorn since its acquisition in 2012. Such amounts are eliminated in consolidation and will only be repaid to Acorn when OmniMetrix is generating sufficient cash to allow such repayment.

**NOTE 6— RESTRUCTURING AND RELATED CHARGES**

In 2013, OmniMetrix restructured its operations to better align expenses with revenues following a change in management. The restructuring involved employee severance and termination benefits as well as a charge for a significant reduction in the utilization of its leased facility in Buford and a write-down of a majority of the remaining book value of leasehold improvements associated with the leased facility. At December 31, 2017, \$129 of lease payments associated with the reduced utilization of leased facilities remained unpaid. During the six months ended June 30, 2018, OmniMetrix paid \$32 of this liability. The total remaining accrued restructuring balance of \$97 is expected to be paid in full by December 31, 2019 and is included in Other current liabilities (\$64) and Other liabilities (\$33) in the Company's condensed consolidated balance sheets.

**NOTE 7—SHORT-TERM CREDIT FACILITY**

In October 2017, OmniMetrix renewed its Loan and Security Agreement providing OmniMetrix with access to accounts receivable formula-based financing of the lesser of 75% of eligible receivables or \$1,000. Debt incurred under this financing arrangement bears interest at the greater of prime (5.00% at June 30, 2018) plus 2% or 6% per year. In addition, OmniMetrix is to pay a monthly service charge of 0.9% of the average aggregate principal amount outstanding for the prior month, for a current effective rate of interest on advances of 17.8%. OmniMetrix also agreed to continue to maintain a minimum loan balance of \$150 in its line-of-credit with the lender for a minimum of one year beginning November 1, 2017.

OmniMetrix had an outstanding balance of \$190 and \$313 as of June 30, 2018 and December 31, 2017, respectively, pursuant to the Loan and Security Agreement. OmniMetrix's additional availability under the Loan and Security agreement was \$130 and \$182 at June 30, 2018 and December 31, 2017, respectively.

**NOTE 8—EQUITY****(a) Acorn Stock Options**

A summary of stock option activity for the six months ended June 30, 2018 is as follows:

	<b>Number of Options (in shares)</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2017	1,401,489	\$ 3.45		
Granted	125,000	0.31		
Exercised	—			
Forfeited or expired	(7,500 )	\$ 0.14		
Outstanding at June 30, 2018	1,518,989	\$ 3.21	2.7 years	\$ 25
Exercisable at June 30, 2018	1,433,155	\$ 3.38	2.7 years	\$ 22

The options granted in 2018 were to directors (90,000 with an exercise price ranging from \$0.23 to \$0.35), an employee (30,000 with an exercise price of \$0.41) and a non-employee (5,000 with an exercise price of \$0.23). The fair value of the options granted is \$29 and was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

Risk-free interest rate	2.6	%
Expected term of options	6.6	years
Expected annual volatility	85	%
Expected dividend yield	—	%

**(b) Stock-based Compensation Expense**

Stock-based compensation expense included in Selling, general and administrative expenses in the Company's Condensed Statements of Operations was \$18 and \$18 for the six-month periods ended June 30, 2018 and June 30,

2017, respectively, and \$11 and \$5 for the three-month periods ended June 30, 2018 and June 30, 2017, respectively. The balance of unamortized stock compensation as of June 30, 2018 was \$23.

#### (c) Common Stock in Lieu of Board Fees

Each director of the Company may elect by written notice delivered on or before the first day of each calendar year whether to receive, in lieu of some or all of his or her retainer and board fees, that number of shares of Company Common Stock as shall have a value equal to the applicable retainer and board fees, based on the closing price of the Company's Common Stock on its then-current trading platform or exchange on the last trading day immediately preceding the first day of the applicable year. Once made, the election shall be irrevocable for such election year and the shares subject to the election shall vest and be issued one-fourth upon the first day of the election year and one-fourth as of the first day of each of the second through fourth calendar quarters thereafter during the remainder of the election year. For the 2018 calendar year, one of our directors elected to receive Common Stock in lieu of retainer and board fees of \$17. Accordingly, this director was issued 18,479 shares of Common Stock in January 2018 for the first quarter of 2018, 18,478 shares of Common Stock on April 2, 2018 for the second quarter of 2018 and 18,478 shares of Common Stock on July 2, 2018 for the third quarter of 2018. This director resigned from the Company's Board of Directors on August 6, 2018.

#### (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:

	<b>Number of Warrants (in shares)</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Life</b>
Outstanding at December 31, 2017	2,654,423	\$ 1.46	
Granted	—	—	
Exercised	—	—	
Forfeited or expired	—	—	
Outstanding at June 30, 2018	2,654,423	\$ 1.46	1.7 years



**NOTE 9— SEGMENT REPORTING**

The Company currently operates in two reportable operating segments, both of which are performed through the Company's OmniMetrix subsidiary:

The Power Generation ("PG") segment provides wireless remote monitoring and control systems and services for critical assets as well as Internet of Things applications.

The Cathodic Protection ("CP") segment provides for remote monitoring of cathodic protection systems on gas pipelines for gas utilities and pipeline companies.

The following tables represent segmented data for the six- and three-month periods ended June 30, 2018 and June 30, 2017:

	PG	CP	Total
Six months ended June 30, 2018:			
Revenues from external customers	\$1,767	\$672	\$2,439
Intersegment revenues	—	—	—
Segment gross profit	1,181	300	1,481
Depreciation and amortization	24	9	33
Segment loss before income taxes	(39 )	(155)	(194 )
Six months ended June 30, 2017:			
Revenues from external customers	\$1,712	\$429	\$2,141
Intersegment revenues	—	—	—
Segment gross profit	1,018	190	1,208
Depreciation and amortization	32	8	40
Segment loss before income taxes	(274 )	(149)	(423 )
Three months ended June 30, 2018:			
Revenues from external customers	\$881	\$349	\$1,230
Intersegment revenues	—	—	—
Segment gross profit	593	143	736
Depreciation and amortization	12	4	16
Segment loss before income taxes	(18 )	(92 )	(110 )
Three months ended June 30, 2017:			
Revenues from external customers	\$814	\$231	\$1,045

Edgar Filing: ACORN ENERGY, INC. - Form 10-Q

Intersegment revenues	—	—	—
Segment gross profit	498	96	594
Depreciation and amortization	16	4	20
Segment loss before income taxes	(129 )	(85 )	(214 )

**Reconciliation of Segment Loss to Consolidated Net Loss Before Income Taxes**

	Six months ended June 30, 2018		Three months ended June 30, 2017	
Total net loss before income taxes for reportable segments	2018	2017	2018	2017
	\$(194)	\$(423)	\$(110)	\$(214)
Unallocated cost of corporate headquarters	(797)	(507)	(461)	(345)
Consolidated loss before income taxes	(991)	(930)	(571)	(559)

**NOTE 10—REVENUE**

The core principle of ASC 606 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASC 606 defines a five-step process to achieve this core principle, which includes: (1) identifying contracts with customers, (2) identifying performance obligations within those contracts, (3) determining the transaction price, (4) allocating the transaction price to the performance obligation in the contract, which may include an estimate of variable consideration, and (5) recognizing revenue when or as each performance obligation is satisfied.

Sales of OmniMetrix monitoring systems include the sale of equipment (“HW”) and of monitoring services (“Monitoring”). Sales of OmniMetrix monitoring systems have multiple elements which include the sale of equipment and of monitoring services. Sales of OmniMetrix equipment do not qualify as a separate unit of accounting. As a result, revenue (and related costs) associated with sale of equipment are recorded to deferred revenue (and deferred charges) upon shipment for PG and CP monitoring units. Revenue and related costs with respect to the sale of equipment are recognized over the estimated life of the units which are currently estimated to be three years (two years up to December 31, 2017). Revenues from the prepayment of monitoring fees (generally paid twelve months in advance) are initially recorded as deferred revenue upon receipt of payment from the customer and then amortized to revenue over the monitoring service period.

The following table disaggregates the Company’s revenue for the six- and three-month periods ended June 30, 2018 and 2017:

	HW	Monitoring	Total
Six months ended June 30, 2018:			
PG Segment	\$568	\$ 1,199	\$1,767
CP Segment	572	100	672
Total Revenue	\$1,140	\$ 1,299	\$2,439

	HW	Monitoring	Total
Six months ended June 30, 2017:			
PG Segment	\$667	\$ 1,045	\$1,712
CP Segment	387	42	429
Total Revenue	\$1,054	\$ 1,087	\$2,141

	HW	Monitoring	Total
Three months ended June 30, 2018:			
PG Segment	\$275	\$ 606	\$881
CP Segment	298	51	349

Edgar Filing: ACORN ENERGY, INC. - Form 10-Q

Total Revenue	\$573	\$ 657	\$1,230
---------------	-------	--------	---------

	HW	Monitoring	Total
Three months ended June 30, 2017:			
PG Segment	\$293	\$ 521	\$814
CP Segment	207	24	231
Total Revenue	\$500	\$ 545	\$1,045

Deferred revenue activity for the six months ended June 30, 2018 can be seen in the table below:

	HW	Monitoring	Total
Balance at December 31, 2017	\$2,227	\$ 1,337	\$3,564
Additions during the period	1,217	1,385	2,602
Recognized as revenue	(1,140)	(1,299 )	(2,439)
Balance at June 30, 2018	2,304	1,423	\$3,727
Amounts to be recognized as revenue in the year ending:			
June 30, 2019	1,515	1,247	2,762
June 30, 2020	527	171	698
June 30, 2021 and thereafter	262	5	267
	\$2,304	\$ 1,423	\$3,727

Deferred charges relate only to the sale of equipment. Deferred charges activity for the six months ended June 30, 2018 can be seen in the table below:

Balance at December 31, 2017	\$ 1,374
Additions during the period	681
Recognized as cost of sales	(691 )
Balance at June 30, 2018	\$ 1,364
Amounts to be recognized as cost of sales in the year ending:	
June 30, 2019	\$ 917
June 30, 2020	304 *
June 30, 2021 and thereafter	143 *
	\$ 1,364

\* Amounts included in Other Assets in the Company's Unaudited Condensed Consolidated Balance Sheets at June 30, 2018.

The Company pays its employees sales commissions for sales of HW and for first sales of monitoring services (not for renewals). In accordance with Topic 606, Revenue from Contracts with Customers, of the FASB Accounting Standards Codification ("ASC 606"), the Company capitalizes as a contract asset the sales commissions on these sales. Contract assets associated with HW are amortized over the estimated life of the units which are currently estimated to be three years (two years up to December 31, 2017). Contract assets associated with monitoring services are amortized over the expected monitoring life including renewals. The contract asset balance at December 31, 2017 of \$152 has been recorded as an adjustment to retained earnings in adopting ASC 606 under the modified retrospective method.

The following table provides a reconciliation of the Company's sales commissions contract assets for the six-month period ended June 30, 2018:

	HW	Monitoring	Total
Balance at December 31, 2017	\$ 125	\$ 27	\$ 152
Additions during the period	45	9	54
Amortization of sales commissions	(47 )	(5 )	(52 )
Balance at June 30, 2018	\$ 123	\$ 31	\$ 154

The capitalized sales commissions are included in Other Current Assets (\$121) and Other Assets (\$33) in the Company's Unaudited Condensed Consolidated Balance Sheets at June 30, 2018.



## **NOTE 11—COMMITMENTS**

### **New CEO Consulting Agreement**

On April 9, 2018, the Company entered into a new consulting agreement (the “New Consulting Agreement”) with Jan H. Loeb extending the arrangements for compensation of Mr. Loeb for his services as President and CEO. The previous consulting agreement with Mr. Loeb (the “2017 Consulting Agreement”) expired on January 7, 2018. Following the expiration of the 2017 Consulting Agreement, Mr. Loeb continued to provide the Company with consulting and other services and was compensated at the same rate of monthly cash compensation provided for in the 2017 Consulting Agreement. The New Consulting Agreement expires on December 31, 2019.

Pursuant to the New Consulting Agreement, Mr. Loeb receives cash compensation of \$12 per month commencing May 1, 2018. Mr. Loeb also received a bonus of \$100 in recognition of his performance in the sale of the Company’s remaining shares of DSIT Solutions Ltd. He will be eligible for two additional bonuses during the term of the New Consulting Agreement: \$150 upon consummation of a corporate acquisition transaction approved by the Company’s Board, and \$150 upon consummation of a corporate financing/funding transaction approved by the Company’s Board. Mr. Loeb also received a grant on May 1, 2018 of options to purchase 35,000 shares of the Company’s common stock, which shall be exercisable at an exercise price of \$0.35 per share, which was the closing price of the Company’s common stock on April 30, 2018. Fifty percent (50%) of the options vested immediately, twenty-five percent (25%) of the options vested on July 1, 2018, and the remaining twenty-five percent (25%) of the options will vest on October 1, 2018. The fair value of these options was \$9. The exercise period and other terms are substantially the same as the terms of the options the Company has granted to its outside directors.

### **Executive Chairman of the Board**

On April 9, 2018, Christopher E. Clouser, a member of the Company’s Board of Directors, was appointed to the newly-created position of Executive Chairman of the Board.

For the performance of his additional duties as Executive Chairman, Mr. Clouser’s compensation was increased by \$36 per year (to an annual rate of \$71) effective May 1, 2018. Mr. Clouser was also awarded a bonus of \$50 in recognition of his performance in the sale of the Company’s shares of DSIT Solutions Ltd.

Mr. Clouser’s service as Executive Chairman and as a member of the Company’s Board of Directors terminated at the 2018 Annual Meeting of Stockholders on August 6, 2018.

## **CFO Consulting Agreement**

On June 1, 2018, the Company entered into a Consulting Agreement with Tracy Clifford Consulting, LLC, for the provision of the services of Tracy Clifford as the Company's Chief Financial Officer following the resignation of Michael Barth, the Company's previous Chief Financial Officer. In such capacity, Ms. Clifford acts as a consultant to, and not an employee of, the Company. The initial term of the Consulting Agreement began on June 1, 2018, and expires on June 1, 2019, and will automatically renew unless terminated as provided therein. Pursuant to the Consulting Agreement, Ms. Clifford receives cash compensation at a rate of \$102 per annum. Ms. Clifford will also receive additional cash compensation at the rate of \$0.2 per hour for each hour worked in excess of an aggregate of 520 hours during any one-year term. Ms. Clifford also received a grant on June 1, 2018 of options to purchase 30,000 shares of the Company's common stock, with an exercise price of \$0.41 per share, which was the closing price of the common stock on May 31, 2018. The fair value of these options was \$9. The options will vest and become exercisable on the first anniversary of the date of grant, and shall expire upon the earlier of (a) seven years from grant or (b) 18 months from the date Ms. Clifford ceases to be a consultant to the Company. At the beginning of each additional one-year term, the Company shall grant Ms. Clifford an additional 30,000 stock options, which shall have an exercise price equal to the most recent closing price immediately preceding the grant date and otherwise have the same terms as the options described above.



**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, 2017.

**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.

	Six months ended June 30, 2018		
	OmniMetric	Acorn	Total Continuing Operations
Revenue	\$2,439	\$—	\$ 2,439
Cost of Sales	958	—	958
Gross profit	1,481	—	1,481
Gross profit margin	61 %		61 %
R& D expenses	260	—	260
Selling, general and administrative expenses	1,354	779	2,133
Operating loss	\$(133 )	\$(779 )	\$ (912 )

	Six months ended June 30, 2017		
	OmniMetric	Acorn	Total Continuing Operations
Revenue	\$2,141	\$—	\$ 2,141
Cost of Sales	933	—	933
Gross profit	1,208	—	1,208
Gross profit margin	56 %		56 %
R& D expenses	268	—	268

Edgar Filing: ACORN ENERGY, INC. - Form 10-Q

Selling, general and administrative expenses	1,336	448	1,784
Operating loss	\$(396 )	\$(448 )	\$( 844 )

Three months ended June 30,  
2018

	OmniMetrix	Acorn	Total Continuing Operations
Revenue	\$1,230	\$—	\$ 1,230
Cost of Sales	494	—	494
Gross profit	736	—	736
Gross profit margin	60 %		60 %
R& D expenses	131	—	131
Selling, general and administrative expenses	683	466	1,149
Operating loss	\$(78 )	\$(466 )	\$( 544 )

Three months ended June 30,  
2017

	OmniMetrix	Acorn	Total Continuing Operations
Revenue	\$1,045	\$—	\$ 1,045
Cost of Sales	451	—	451
Gross profit	594	—	594
Gross profit margin	57 %		57 %
R& D expenses	176	—	176
Selling, general and administrative expenses	618	307	925
Operating loss	\$(200 )	\$(307 )	\$( 507 )

## BACKLOG

As of June 30, 2018, our backlog of work to be completed (primarily deferred revenue) at our OmniMetrix subsidiary totaled approximately \$3.7 million.

## **RECENT DEVELOPMENTS**

### **New CEO Consulting Agreement**

As previously disclosed, on April 9, 2018, we entered into a new consulting agreement (the “New Consulting Agreement”) with Jan H. Loeb extending the arrangements for compensation of Mr. Loeb for his services as President and CEO. The previous consulting agreement with Mr. Loeb (the “2017 Consulting Agreement”) expired on January 7, 2018. Following the expiration of the 2017 Consulting Agreement, Mr. Loeb continued to provide us with consulting and other services and was compensated at the same rate of monthly cash compensation provided for in the 2017 Consulting Agreement. The New Consulting Agreement expires on December 31, 2019.

Pursuant to the New Consulting Agreement, Mr. Loeb receives cash compensation of \$12,000 per month commencing May 1, 2018. Mr. Loeb also received a bonus of \$100,000 in recognition of his performance in the sale of our remaining shares of DSIT Solutions Ltd. He will be eligible for two additional bonuses during the term of the New Consulting Agreement: \$150,000 upon consummation