ACORN ENERGY, INC.
Form 10-Q
November 13, 2008

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, 2008

Commission file number: **0-19771**

ACORN ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	**22-2786081**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4 West Rockland Road Montchanin, Delaware	**19710**
(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 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 13, 2008

Common Stock, $0.01 par value per share	11,677,157 shares

ACORN ENERGY, INC.
Quarterly Report on Form 10-Q
for the Quarterly Period Ended September 30, 2008

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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 simila 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 and in Part II, Item 1A of this Quarterly Report..

ACORN ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands, except share and per share data)

	As of December 31, 2007	As of September 30, 2008 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,644	$ 14,435
Restricted cash	—	2,397
Accounts receivable, net	1,775	3,788
Unbilled work-in-process	1,784	1,527
Inventory	119	802
Other current assets	1,391	2,370
Total current assets	24,713	25,319
Property and equipment, net	1,335	2,554
Available for sale - Investment in Comverge	55,538	2,312
Investment in GridSense	—	861
Investment in Paketeria	1,439	—
Other investments	668	1,150
Funds in respect of employee termination benefits	1,607	1,808
Restricted cash	1,517	557
Other intangible assets, net	5,987	10,674
Goodwill	3,945	8,632
Other assets	218	309
Total assets	$ 96,967	$ 54,176
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term bank credit	$ 590	$ 523
Current maturities of long-term debt	171	28
Convertible debt, net	4,237	—
Trade accounts payable	910	1,609
Accrued payroll, payroll taxes and social benefits	1,118	942
Notes payable to former debenture holders of Coreworx	—	3,400
Other current liabilities	3,844	4,007
Total current liabilities	10,870	10,509
Long-term liabilities:		
Long-term debt	12	—
Liability for employee termination benefits	2,397	2,866
Deferred taxes	16,038	29
Other liabilities	325	422
Total long-term liabilities	18,772	3,317
Minority interests	—	1,939
Shareholders' equity:		
Common stock - $0.01 par value per share:		
Authorized – 20,000,000 shares; Issued –11,134,795 shares and 12,454,528 at December 31, 2007 and September 30, 2008	111	124
Additional paid-in capital	49,306	54,318
Warrants	1,330	1,020

Accumulated deficit		(9,692)		(13,502)
Treasury stock, at cost – 777,371 shares for December 31, 2007 and September 30, 2008, respectively		(3,592)		(3,592)
Accumulated other comprehensive income		29,862		43
Total shareholders’ equity		67,325		38,411
Total liabilities and shareholders’ equity	$	96,967	$	54,176

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

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ACORN ENERGY, INC. AND SUBSIDIARIES
Consolidated Statements of Operations (unaudited)
(in thousands, except per share data)

	Nine months ended September 30, 2007	Nine months ended September 30, 2008	Three months ended September 30, 2007	Three months ended September 30, 2008
Sales				
Projects	$ 2,699	$ 5,959	$ 1,413	$ 1,918
Catalytic regeneration services	—	5,441	—	1,840
Software license and services	—	767	—	767
Other	616	363	182	103
	3,315	12,530	1,595	4,628
Cost of sales				
Projects	1,976	4,091	977	1,314
Catalytic regeneration services	—	4,573	—	2,075
Software license and services	—	257	—	257
Other	525	282	145	85
	2,501	9,203	1,122	3,731
Gross profit	814	3,327	473	897
Operating expenses:				
Research and development expenses	310	510	77	402
Acquired in-process research and development	—	551	—	551
Selling, general and administrative expenses	3,012	8,094	1,153	3,401
Impairment of loans to Paketeria loans and investment to Local Power	—	3,000	—	2,454
Total operating expenses	3,322	12,155	1,230	6,808
Operating loss	(2,508)	(8,828)	(757)	(5,911)
Gain on early redemption of convertible debentures	—	1,259	—	—
Finance expense, net	(729)	(2,950)	(358)	(50)
Gain on public offering of Comverge	16,169	—	—	—
Gain on sale of Comverge shares	—	8,861	—	3,079
Gain (loss) on outside investment in Company's equity investments, net	(37)	7	(37)	7
Income (loss) before taxes on income	12,895	(1,651)	(1,152)	(2,875)
Taxes on income	(9)	(689)	(4)	(691)
Income (loss) from operations of the Company and its consolidated subsidiaries	12,886	(2,340)	(1,156)	(3,566)
Minority interests	—	284	—	204
Share in losses of GridSense	—	(194)	—	(60)
Share in losses of Paketeria	(828)	(1,560)	(440)	(899)
Net income (loss)	$ 12,058	$ (3,810)	$ (1,596)	$ (4,321)
Basic and diluted earnings per share:				
Net income (loss) per share – basic	$ 1.24	$ (0.34)	$ (0.16)	$ (0.37)
Net income (loss) per share – diluted	$ 1.15	$ (0.34)	$ (0.16)	$ (0.37)
	9,723	11,285	10,063	11,538

Weighted average number of shares outstanding – basic				
Weighted average number of shares outstanding – diluted	11,823	11,285	10,063	11,538

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

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ACORN ENERGY, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Shareholders' Equity (unaudited)
(in thousands)

	Number of Shares	Common Stock	Additional Paid-In Capital	Warrants	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances as of December 31, 2007	11,135	$ 111	$ 49,306	$ 1,330	$ (9,692)	$ (3,592)	$ 29,862	$ 67,325
Net loss	—	—	—	—	(3,810)	—	—	(3,810)
FAS 115 adjustment on Comverge shares, net of deferred taxes	—	—	—	—	—	—	(29,831)	(29,831)
Differences from translation of financial statements of subsidiaries and equity investees	—	—	—	—	—	—	12	12
Comprehensive loss	—	—	—	—	—	—	—	(33,629)
Intrinsic value of beneficial conversion feature of convertible debentures at extinguishment	—	—	(1,259)	—	—	—	—	(1,259)
Exercise of options and warrants	252	2	1,072	(310)	—	—	—	764
Conversion of Debentures	780	8	2,955	—	—	—		2,963
Shares issued in acquisition of Coreworx	288	3	1,230	—	—	—	—	1,233
Stock option compensation	—	—	638	—	—	—	—	638
Stock option compensation of subsidiary	—	—	376	—	—	—	—	376
Balances as of September 30, 2008	12,455	$ 124	$ 54,318	$ 1,020	$ (13,502)	$ (3,592)	$ 43	$ 38,411

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

ACORN ENERGY, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (unaudited)
(dollars in thousands)

	Nine months ended September 30, 2007	Nine months ended September 30, 2008
Cash flows provided by (used in) operating activities:		
Net income (loss)	$ 12,058	$ (3,810)
Adjustments to reconcile net income to net cash used in operating activities (see Schedule A):	(13,909)	(455)
Net cash used in operating activities	(1,851)	(4,265)
Cash flows provided by (used in) investing activities:		
Proceeds from sale of Comverge shares	—	15,355
Investment in GridSense	—	(1,153)
Investment in EnerTech	—	(750)
Investment in and loans to Local Power Inc.	(268)	(250)
Restricted cash	—	(1,437)
Loans provided to Paketeria	(1,154)	(2,551)
Loan provided to GridSense	—	(736)
Loan provided to EES	—	(200)
Transaction costs in 2007 acquisition of SCR Tech	—	(956)
Amounts funded for employee termination benefits	(160)	(229)
Utilization of employee termination benefits	89	28
Acquisition of license	—	(2,000)
Acquisitions of property and equipment	(214)	(1,327)
Loan and accrued interest to Coreworx in contemplation of acquisition	—	(1,563)
Acquisition of Coreworx net of cash acquired (see Schedule B)	—	(2,466)
Net cash used in investing activities	(1,707)	(235)
Cash flows provided by (used in) financing activities:		
Short-term debt borrowings (repayments), net	(368)	(67)
Proceeds from long-term debt	107	—
Proceeds from convertible debentures with warrants net of transaction costs	5,840	—
Redemption of convertible debentures	—	(3,443)
Repayments of long-term debt	(89)	(189)
Repayment of related party note payable	(300)	—
Issuance of shares to minority shareholders in consolidated subsidiary	—	2,226
Proceeds from employee stock option and warrant exercises	1,043	764
Net cash provided (used in) by financing activities	6,233	(709)
Net increase (decrease) in cash and cash equivalents	2,675	(5,209)
Cash and cash equivalents at beginning of period	1,521	19,644
Cash and cash equivalents at end of period	$ 4,196	$ 14,435

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

ACORN ENERGY, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (unaudited)
(dollars in thousands)

	Nine months ended September 30, 2007	2008
Schedule A:		
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	$ 118	$ 888
Acquired in-process research and development	—	551
Impairment of software license	23	—
Impairment of loans to Paketeria	—	2,454
Impairment of investment and loans to Local Power	—	546
Share in losses of Paketeria	779	1,535
Share in losses of GridSense	—	194
Increase (decrease) in liability for employee termination benefits	(167)	469
Deferred income taxes	—	893
Amortization of stock-based deferred compensation	615	1,014
Amortization of beneficial conversion feature, debt origination costs and value of warrants in private placement of Debentures	418	3,064
Gain on public offering of investment in Comverge	(16,169)	—
Gain on sale of Comverge shares	—	(8,861)
Loss (gain) on outside investment in Company's equity investments, net	37	(7)
Gain on early redemption of Debentures	—	(1,259)
Minority interests	—	(284)
Exchange loss on loans to Paketeria and Gridsense	—	129
Other	(6)	2
Change in operating assets and liabilities:		
Decrease in accounts receivable, unbilled work-in process and other current and other assets	(504)	(2,240)
Increase in inventory	—	(683)
Increase in accounts payable and other liabilities	947	1,140
Net adjustment to reconcile net income to net cash used in operating activities	$ (13,909)	$ (455)

Schedule B:		
Assets/liabilities acquired in the acquisition of Coreworx:		
Other current assets		$ (605)
Property and equipment		(183)
Intangibles		(3,509)
Goodwill		(4,478)
Current liabilities		668
Due to Acorn		1,559
Value of Acorn stock issued in acquisition		1,233
Notes issued to former debenture holders of Coreworx		3,400
In-process research and development		(551)
		$ (2,466)

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

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	Nine months ended September 30, 2007	2008
Non-cash items:		
Accrued expenses in respect of private placement of common stock and convertible debentures	$ 83	
Increase (decrease) of deferred tax liability with respect to change in market value of Comverge shares	$ 21,522	$ (16,902)
Increase in goodwill with respect to finalizing purchase price allocation		$ 209
Reduction in intangibles acquired with respect to finalizing purchase price allocation		$ 250
Reduction in value of put option with respect to finalizing purchase price allocation		$ 41
Non-cash financing and investing items		
Unrealized gain (loss) from Comverge shares	$ 77,204	$ (46,733)
Conversion of loans and notes receivable and accrued interest due from Paketeria to investment in Paketeria	$ 1,190	
Value of beneficial conversion feature upon issuance of convertible debentures	$ 2,570	
Adjustment of retained earnings and other current liabilities with respect to the adoption of FIN 48	$ 305	
Conversion of Debentures to common stock and additional paid-in-capital		$ 2,963

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

ACORN ENERGY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited)
(dollars in thousands)

Note 1: Basis of Presentation

The accompanying unaudited 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 nine-month period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These unaudited 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, 2007. Certain reclassifications have been made to the Company’s prior years’ consolidated financial statements to conform to the current year’s consolidated financial statement presentation.

Note 2: New Accounting Standards

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” (“SFAS 141(R)”) and SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements” (“SFAS 160”). SFAS 141(R) requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their respective acquisition-date fair values and changes other practices under SFAS 141. SFAS 141(R) also requires additional disclosure of information surrounding a business combination, such that users of the entity’s financial statements can fully understand the nature and financial impact of the business combination. SFAS 160 requires entities to report non-controlling (minority) interests in subsidiaries as equity in the consolidated financial statements. The Company is required to adopt SFAS 141(R) and SFAS 160 simultaneously in its fiscal year beginning January 1, 2009. The provisions of SFAS 141(R) will only impact the Company if it is party to a business combination after the pronouncement has been adopted. The Company is currently evaluating the effects, if any, that SFAS 160 may have on its financial position, results of operations and cash flows.

In June 2006, the Emerging Issues Task Force (EITF), reached a consensus on Issue No. 06-01, “Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider” (EITF No. 06-01). EITF 06-01 provides guidance on the accounting for consideration given to third party manufacturers or resellers of equipment which is required by the end-customer in order to utilize the service from the service provider. EITF 06-01 is effective January 1, 2008 for the Company. The adoption of EITF 06-01 did not have a material impact on the Company’s results of operations and financial position.

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 07-03, "Accounting for Nonrefundable Advance Payments for Goods or Services Received to Be Used in Future Research and Development Activities" (EITF No. 07-03). EITF No. 07-03 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. The provisions of EITF 07-03 are effective January 1, 2008 for the Company. The adoption of EITF 07-03 did not have a material impact on the Company’s results of operations and financial position.

In December 2007, the FASB reached a consensus on EITF Issue No. 07-01, "Accounting for Collaborative Arrangements" ("EITF 07-01"). EITF 07-01 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-01 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-01 is effective for fiscal years beginning after December 15, 2008 (January 1, 2009, for the Company). The Company does not expect the adoption of EITF 07-01 to have a material impact on its results of operations and financial position.

Note 3: Investment in Comverge Inc. (Comverge)

During the nine months ended September 30, 2008, the Company sold 1,261,165 of its 1,763,665 Comverge shares held at the beginning of 2008. The Company received proceeds of $15,355 from the sales and recorded a pre-tax gain of $8,861.

The Company's remaining 502,500 Comverge shares are accounted for as "available-for-sale" under SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities". Accordingly, the Company reflected its investment in Comverge based on Comverge's share price of $4.60 at September 30, 2008 which resulted in a reduction of the carrying value to reflect a fair market value of $2,312. In addition, the Company adjusted the previously recorded deferred tax liability associated with the Comverge shares to zero. The net reduction of $29,831 was recorded to Accumulated Other Comprehensive Income.

Note 4: Acquisition of Coreworx Inc. (Coreworx)

On August 13, 2008, the Company entered into and closed an agreement for the acquisition of all of the outstanding capital stock of Coreworx, Inc. ("Coreworx"). Coreworx is headquartered in Kitchener, Ontario, Canada, and is engaged in the design and delivery of project collaboration solutions for large capital projects. The acquisition of Coreworx was completed pursuant to a Securities Purchase Agreement (the "Purchase Agreement"), dated August 13, 2008, by and among the Company, former debenture holders in Coreworx and former shareholders in Coreworx.

Prior to and in contemplation of the completion of the acquisition, the Company lent Coreworx $1,500 which bore interest at 12% per year.

Immediately prior to the purchase of the Coreworx shares, the Company contributed to the capital of Coreworx $2,500 in cash and $3,400 aggregate principal amount of its 8% one-year promissory notes. The cash and notes were delivered by Coreworx to the holders of Coreworx's debentures in full payment and satisfaction of all principal and accrued interest outstanding on such debentures.

In consideration for the Coreworx shares, the Company issued 287,500 shares of its Common Stock. Under the Purchase Agreement, a portion of these shares will be held in escrow until one year after the closing.

As a result of the transaction, Coreworx is a wholly-owned subsidiary of the Company and will be presented as the Company's Energy Infrastructure Software segment. In connection with the transaction, the Company agreed to implement an option plan for Coreworx employees for up to 20% of the outstanding Coreworx shares.

In accordance with FASB Statement No. 141, Business Combinations, the assets and liabilities of Coreworx are required to be adjusted to their fair values. The estimated purchase price of $7,326 is the sum of the following: (i) $2,500 representing the cash consideration for the shares of Coreworx, (ii) $3,400 representing the principal amount of 8% one-year promissory notes (iii) $1,233 representing the market value of the 287,500 shares of Acorn common stock issued to the former shareholders of Coreworx (based on the average market price of Acorn shares on the date of the announcement of the transaction and for the two days before and after the announcement in accordance with EITF 99-12 "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination") and (iv) $193 of estimated transaction costs.

A contingent payment of one-half of the expected net receipt (less fees) by Coreworx of monies due from the Canada Revenue Agency or the Ontario Ministry of Revenue in connection with Coreworx's 2007 scientific research and experimental development tax credit refund claim or Ontario innovation tax credit refund claim for 2007 (collectively, the "SRED Claim") during the six months immediately following the closing date, is not included in the purchase price as the receipt of the SRED Claim within the six months following the closing date is less than beyond a reasonable doubt.

The final purchase price will be dependent upon the actual amount of the SRED refund (if any) and the actual transaction costs.

The transaction is accounted for as a purchase business combination. Coreworx's results from operations for the period from acquisition to September 30, 2008 have been included in the Company's consolidated statement of operations.

Under the purchase method of accounting, the total consideration of $7,326 is allocated to Coreworx's identifiable tangible and intangible assets and liabilities assumed based on their fair values as of the date of the completion of the transaction. The Company is in the process of obtaining third-party valuation of intangible assets as of August 13, 2008, for the purposes of allocating the purchase price to assets and liabilities and has preliminarily allocated the purchase price as follows:

Cash	$	227
Other current assets		605
Property and equipment		183
In process research and development (expensed immediately)		551
Intangible assets		3,509
Goodwill		4,478
Total assets acquired		9,553
Current liabilities		(668)
Non-current liabilities (intercompany debt eliminated in consolidation)		(1,559)
Net assets acquired	$	7,326

In-process research and development, represents Coreworx's research and development projects that had not reached technological feasibility and had no alternative future use when acquired. The Company tentatively estimates that approximately $551 of the purchase price may represent purchased in-process technology. This is a preliminary estimate that is subject to change.

Intangible assets with estimable useful lives are amortized over that period. The acquired intangible assets with estimable useful lives include approximately $881 for the estimated fair market value of Coreworx's customer contracts and relationships (estimated useful life of 10 years) and approximately $2,628 for the estimated fair market value of Coreworx's software (estimated useful life of 16 years). Any adjustment to the estimated purchase price of $7,326 would result in a similar adjustment to the estimated goodwill generated by the transaction.

The intangible assets represent the preliminary allocation of the fair value of intangible assets acquired (weighted average useful life of 14.5 years). Both the goodwill and the intangibles resulting from the acquisition are not deductible for income tax purposes. The goodwill will not be amortized for financial statement purposes in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets". The intangible assets and the goodwill acquired were assigned to the Company's new Energy Infrastructure Software ("EIS") segment.

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The following are certain unaudited pro forma combined income data assuming that the acquisition of Coreworx occurred on January 1, 2008 and 2007, respectively. The unaudited pro forma financial information is not necessarily indicative of the combined results that would have been attained had the acquisitions of Coreworx occurred as of January 1, 2008 and 2007, respectively, nor is it necessarily indicative of future results.

	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Three months ended September 30, 2008	Three months ended September 30, 2007
	In thousands (except per share data)			
Results of Operations	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$ 13,997	$ 5,399	$ 5,345	$ 2,481
Net income (loss)	$ (7,959)	$ 6,566	$ (5,885)	$ (1,765)
Net income (loss) per share - basic	$ (0.69)	$ 0.66	$ (0.50)	$ (0.17)
Net income (loss) per share - diluted	$ (0.69)	$ 0.46	$ (0.50)	$ (0.17)

Note 5: Investment in GridSense Systems Inc. (GridSense)

On January 2, 2008, the Company participated in a private placement financing of total gross proceeds of C$1,700 (approximately $1,700) for GridSense Systems Inc. (CDNX: GSN.V) (“GridSense”). The placement consisted of 24,285,714 units at $0.07 per unit, each unit being comprised of one common share and one share purchase warrant. Each warrant entitled the holder to acquire an additional common share at $0.10 per share until July 2, 2008.

The Company was the lead investor in the placement acquiring 15,714,285 shares and 15,714,285 warrants for C$1,100 (approximately $1,100) plus transaction costs of approximately $53. The 15,714,285 shares acquired by the Company in the placement represent approximately 24.5% of GridSense's issued and outstanding shares. The Company did not exercise any of the 15,714,285 warrants it acquired in the placement and they expired on July 2, 2008. Also in January 2008, GridSense issued 3,000,000 of its shares in an acquisition. The GridSense issuance diluted the Company’s holdings in GridSense to approximately 23.4%. The Company recorded a loss of $75 on the dilution.

The Company’s accounts for its investment in GridSense using the equity method in accordance with APB Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock”. The Company records its share of income or loss in GridSense with a lag of three months as it is not able to receive timely financial information. In the first nine months of 2008, the Company recorded a loss of $126 representing the Company’s weighted average of approximately 23.6% share of GridSense’s losses for the period from January 2, 2008 to June 30, 2008. In the third quarter of 2008, the Company recorded a loss of $14 representing the Company’s 23.4% share of GridSense’s losses for the period from April 1, 2008 to June 30, 2008.

Based on an independent appraisal, the Company has allocated the $1,153 investment in GridSense as follows:

- $761 to the value of technologies acquired. The acquired technologies are to be amortized using the straight-line method over ten years.
- $73 to the value of the customer relationships and $61 to the value of the tradename at the date of the investment. The value of the customer relationships and the tradename are to be amortized using the straight-line method over a weighted average 12.5 year period.
- $25 to the value of the warrants acquired.
- $233 to non-amortizing goodwill.

All the above components of the Company's investment are not reflected separately as such in the consolidated balance sheet of the Company, but are reflected as components of the Company's investment in GridSense. In addition to the Company's share of losses in GridSense for the period from January 2, 2008 to June 30, 2008, the Company recorded amortization with respect to the identified amortizable intangibles noted above. The Company's share of losses in Gridsense is comprised of the following:

	Nine months ended September 30, 2008	Three months ended September 30, 2008
Equity loss in GridSense for the period from January 2, 2008 –June 30, 2008	$ 126	$ 14
Amortization expense associated with acquired technologies, customer relationships and trademarks and write-off of option value	68	46
Share of losses in GridSense	$ 194	$ 60

In July 2008, the Company lent GridSense C$750 ($736 at the then exchange rate) under a secured promissory note which bears interest at 8% and was initially due on October 30, 2008. The maturity date of the loan has been extended to January 31, 2009 with no other changes in terms. The note is secured by all the assets of GridSense's principal operating subsidiary. The principal balance at September 30, 2008 of $722 is included in Other Current Assets.

Note 6: Investment in Paketeria AG (Paketeria)

At June 30, 2008, the Company owned approximately 31% of Paketeria's outstanding shares.

During the six months ended June 30, 2008, the Company lent Paketeria €1,030 ($1,488 based upon current exchange rates) on a series of promissory notes. The promissory notes were to bear interest at the rate of 8.0% and were due on the earlier of December 31, 2008 or upon the completion of any transaction in which Paketeria raised funds through any equity and/or debt financing. In addition, the Company received warrants to purchase 6,866 shares of Paketeria. The amount lent to Paketeria was allocated to the loan and the warrants received based on the relative fair values at time of issuance. The Company allocated $1,561 to the loan portion and $63 to the value of the warrants.

In July 2008, Paketeria received a €100 investment in a private equity investment. The Company's holdings in Paketeria were diluted to 31.3% and recorded a gain of $82.

On August 26, 2008, the Company entered into a Loan Agreement with Paketeria to provide Paketeria with Additional Interim Financing of €600 ($867 based upon current exchange rates). Under the Loan Agreement, the loans advanced to Paketeria during the period from January 1, 2008 to June 30, 2008 plus accrued interest were combined with the Additional Interim Financing to a single Combined Loan of €1,662 ($2,401 at current exchange rates). The Combined Loan bears interest at 12% per year and is due on March 31, 2009. The Combined Loan and any accrued interest are subordinate to the rights of any unsubordinated creditors of Paketeria. If the Combined Loan and accrued interest are not paid at the due date, Acorn is entitled to convert the outstanding principal and accrued interest into new Common Shares of Paketeria to be issued at a valuation of €2.31 ($3.34 at current exchange rates) per share. In addition, Paketeria granted warrants to Acorn to acquire Paketeria shares. The warrants are exercisable at €7.71 ($11.14 at current exchange rates) per share to acquire the number of Paketeria shares derived by dividing the Combined Loan's outstanding principal plus accrued interest by €7.71. The warrant may only be exercised to the extent the conversion right is not exercised. The warrants granted in connection with the Combined Loan replaced the warrants received with the series of promissory notes. No value was attributed to the warrants received from the Combined Loan as the value was determined to be immaterial.

Contemporaneously with the execution of the Loan Agreement, Paketeria shareholders owning more than 75% of Paketeria's common stock executed a Shareholder Agreement acknowledging the terms of the Loan Agreement and acknowledging the execution of a Consultancy Agreement with an advisor for Paketeria in which the parties to the Shareholder Agreement, including the Company, granted a warrant to the consultant to immediately purchase up to 5% of Paketeria's common stock from the parties to the Shareholder Agreement at a price of €7.71 per share. In addition, the parties to the Shareholder Agreement, including the Company, granted a warrant to the consultant to purchase an additional 5% of Paketeria's common stock from the parties to the Shareholder Agreement upon the successful closing of an additional Paketeria financing of no less than €3,000 that is completed no later than March 15, 2009. The warrants expire on August 26, 2011.

Following the marked deterioration of Paketeria's cash flows and its decision to change its business model and the Company's doubts as to Peketeria's ability to continue as a going concern, the Company ceased amortizing intangibles associated with its investment in Paketeria and recorded an impairment of all unamortized balances of the non-compete agreement, franchise agreements, brand name and goodwill. In addition, at the end of third quarter of 2008, the Company recorded a doubtful account provision of $2,454 with respect to the Company's loan and accrued interest balances with Paketeria as Paketeria's ability to repay the loan is in doubt.

The Company's share of losses in Paketeria is comprised of the following:

	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Three months ended September 30, 2008	Three months ended September 30, 2007
Equity loss in Paketeria	$ (992)	$ (660)	$ (400)	$ (367)
Amortization expense associated with acquired non-compete and franchise agreements	(76)	(121)	(18)	(58)
Impairment of non-compete and franchise agreements, option value, brand name and goodwill	(467)	—	(467)	—
Stock compensation expense	(25)	(47)	(14)	(15)
Share of losses in Paketeria	$ (1,560)	$ (828)	$ (899)	$ (440)

The activity in the Company's investment in Paketeria during the period from January 1, 2008 to September 30, 2008 is as follows:

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Investment balance as of December 31, 2007	$	1,439
Net adjustment of investment with respect to non-cash gains in connection with outside investments		82
Amortization of acquired non-compete and franchise agreements		(76)
Cumulative translation adjustment		14
Company's share of Paketeria losses – period from January 1, 2008 to September 30, 2008		(992)
Investment balance prior to impairment		467
Impairment of non-compete and franchise agreements, option value, brand name and goodwill		(467)
Investment balance as at September 30, 2008	$	—

Note 7: Goodwill and Other Intangible Assets

On August 13, 2008, the Company acquired Coreworx (see Note 4) in a transaction accounted for as a purchase business combination. In accordance with FAS 142, the Company tentatively recorded goodwill of $4,478 and intangibles of $3,509 based on a preliminary allocation of the purchase price.

There were no impairments of goodwill recorded during the nine-month period ended September 30, 2008. Upon finalizing the purchase price allocation of the Company's additional investment in DSIT in November 2007, the Company recorded an increase in goodwill of $209 along with a decrease in acquired intangibles of $250. The Company's goodwill is related to both its SCR segment ($3,714) and its RT Solutions segment ($440). As a result of the adjustment of the purchase price allocation, the amount allocated to the put option associated with the additional investment in DSIT was reduced by $41.

On May 9, 2008, the Company's CoaLogix, Inc. ("CoaLogix") subsidiary entered into a strategic alliance and license agreement with Solucorp Industries, Ltd. ("Solucorp") pursuant to which CoaLogix obtained exclusive, worldwide commercialization and marketing rights to Solucorp's IFS-2C technology for use in applications which remove heavy metals, such as mercury, from power plants. The agreement has a term of ten years, with an option in favor of CoaLogix to renew for an additional five-year period. In consideration for its rights under the agreement, CoaLogix paid an upfront license fee of $2,000 and agreed to pay royalties on net sales of, and to share a portion of any royalties received in respect of, licensed product with Solucorp based on specified formula.

The changes in the carrying amounts and accumulated amortization of intangible assets from December 31, 2007 to September 30, 2008 were as follows:

	Cost		Accumulated Amortization		Net	
Segment	December 31, 2007	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007	September 30, 2008
SCR	$ 5,511	$ 7,511	$ (81)	$ (573)	$ 5,430	$ 6,938
RT Solutions	557	307	—	(37)	557	270
EIS	—	3,509	—	(31)	—	3,478
	$ 6,068	$ 11,327	$ (81)	$ (641)	$ 5,987	$ 10,686

All intangible assets are being amortized over their estimated useful lives, which were estimated to be ten years for SCR, seven years for RT Solutions and 14.5 years for EIS intangibles. Amortization expense for each of the nine months ended September 30, 2007 and 2008 amounted to $14 and $560, respectively. Amortization expense with respect to intangible assets is estimated to be $1,047 per year for each of the years ending September 30, 2009 through

2013.

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Note 8: Other Investments

In July 2008, the Company received a capital call of $750 from EnerTech Capital Partners III L.P. (EnerTech). The Company funded the capital call in August 2008. The Company's current investment in EnerTech is $1,150.

During the second quarter of 2008, the Company recorded an impairment charge of $268 with respect to the Company's investment in Local Power Inc, (Local Power). The charge is included in selling, marketing and general administrative expense in the second quarter.

During 2008, the Company lent Local Power $250 on a promissory note. This amount is in addition to $25 advanced to Local Power in 2007. The Company has taken a provision against the loan due to questionable collectibility.

Note 9: Other Assets

At September 30, 2008, Other Assets includes $200 on a convertible promissory note evidencing a loan made by CoaLogix to Environmental Energy Services, Inc. ("EES") in contemplation of the acquisition by CoaLogix of the assets of EES. CoaLogix did not enter into a definitive agreement with EES by the target date provided for in the convertible promissory note and does not intend to proceed with the acquisition. The note bears interest at the rate of 11% per year and the note is due February 28, 2011. During the nine month period ended September 30, 2008, the Company recorded interest income of $12 with respect to the promissory note which is also included in Other Assets.

Note 10: Redemption of Convertible Redeemable Subordinated Debentures

On January 29, 2008 the Company completed the redemption of all of its outstanding 10% Convertible Redeemable Subordinated Debentures due March 2011. Subsequent to the Company's announcement of redemption, the holders of the debentures elected to convert approximately $2,963 into approximately 780,000 shares of the Company's common stock, at a conversion price of $3.80 per share. The remaining $3,443 principal amount of Debentures was redeemed in accordance with the notice of redemption. As a result of the early redemption of the Debentures, the remaining balance of unamortized beneficial conversion features, warrants and debt origination costs of $3,064 was written off to interest expense in the first quarter of 2008. In accordance with applicable accounting standards, the Company recorded a non-cash gain of $1,259 on the redemption of the Debentures from the reacquisition of the beneficial conversion feature.

Note 11: Minority Interests

On February 29, 2008, the Company entered into a Common Stock Purchase Agreement (the "Stock Purchase Agreement") with the Company's wholly-owned CoaLogix Inc. subsidiary and EnerTech Capital Partners III L.P. ("EnerTech") pursuant to which EnerTech purchased from CoaLogix a 15% interest in CoaLogix for $1,948. The Company owns 85% of CoaLogix following the transaction and EnerTech's interest in CoaLogix was reflected in the Company's Consolidated Balance Sheets as Minority Interests. The Company recorded an immaterial gain as a result of the investment by EnerTech. During the second quarter of 2008, EnerTech invested an additional $278 in CoaLogix as its 15% share of an aggregate $1,850 additional investment made by the Company and Enertech in CoaLogix. The minority interest's share of CoaLogix's net loss for the nine and three month periods ending September 30, 2008 was $284 and $204, respectively.

In connection with completing the transaction under the Stock Purchase Agreement, the Company, CoaLogix, EnerTech and the senior management of CoaLogix entered into a Stockholders' Agreement dated as of February 29, 2008 (the "Stockholders' Agreement"). Under the Stockholders' Agreement, EnerTech is entitled to a designate a member of the Board of Directors of CoaLogix. In addition, the Stockholders' Agreement provides the parties with rights of first refusal and co-sale in connection with proposed transfers of their CoaLogix stock.

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Pursuant to the Stockholders' Agreement, EnerTech also has a right to purchase additional stock to maintain its percentage interest in CoaLogix in the event of certain dilutive transactions. The right may be exercised until such time as the Company's ownership in CoaLogix is reduced to 75% or CoaLogix completes an initial public offering.

Note 12: Stock Options and Warrants

(a) Acorn Stock Options

A summary of stock option activity for the nine months ended September 30, 2008 is as follows:

	Number of Options (in shares)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2007	1,684,000	$ 3.09	3.1 years	
Granted at market price	285,000	5.21		
Exercised	(50,000)	2.17		$ 136
Forfeited or expired	(25,000)			
Outstanding at September 30, 2008	1,894,000	3.40	3.6 years	$ 1,558
Exercisable at September 30, 2008	1,412,831	$ 3.07	2.4 years	$ 1,469

The weighted average grant date fair value of the 285,000 stock options granted during the first nine months of 2008 was $3.35 per share. The fair value of the options granted was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

Volatility	74%
Expected term (years)	5.7 years
Risk free interest rate	2.5%
Expected dividend yield	0.0%

In the third quarter of 2008, the Company modified the exercise price of 50,000 options previously granted to a consultant of the Company from $4.95 to $3.70. As a result of the modification, the Company recorded an expense of $13 representing the incremental value of the modification in Selling, General and Administrative expense.

(b) CoaLogix Stock Option Plan

In April 2008, the Company approved the CoaLogix Inc. 2008 Stock Option Plan (the "Plan") for its CoaLogix subsidiary to be administrated by the board members of CoaLogix. In July 2008, the Plan was amended to reflect a 25 for 1 stock split. The grants and exercise prices noted below reflect the stock split

In April 2008, CoaLogix granted options to purchase 349,275 of its ordinary shares, to senior management and employees of CoaLogix under the Plan. In July 2008, an additional 9,200 options were granted to non-senior management employees. The April 2008 and July 2008 options were granted with an exercise price of $5.05 per share and are exercisable for a period of ten years. The options vest over a four year period from the date of grant. Upon exercise of all the options in the Plan, the Company's holdings in CoaLogix will be diluted from 85% to approximately 76%.

During the nine and three month periods ended September 30, 2008, $376 and $199, respectively was recorded as stock compensation expense with respect to the abovementioned options ($122 and $57, respectively in Cost of Sales – Catalytic Regeneration Services and $254 and $120, respectively in Selling, Marketing, General and Administrative expenses).

The purpose of the Plan is to provide incentives to key employees of CoaLogix to further the growth, development and financial success of CoaLogix.

(c) Stock-based compensation expense

Total stock-based compensation expense included in the Company's statements of operations for the nine months ended September 30, 2007 and 2008, respectively, was:

	Nine months ended September 30, 2007	Nine months ended September 30, 2008	Three months ended September 30, 2007	Three months ended September 30, 2008
Cost of sales	$ 22	$ 122	$ —	$ 65
Selling, general and administrative expenses	543	867	191	326
Share of losses in Paketeria	49	25	17	13
Total stock based compensation expense	$ 614	$ 1,014	$ 208	$ 404

(d) Warrants

A summary of stock warrants activity for the nine months ended September 30, 2008 is as follows:

	Number of Warrants (in shares)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2007	986,506	3.89	4.0 years
Granted	—		
Exercised	(202,483)		
Forfeited or expired	—		
Outstanding and exercisable at September 30, 2008	784,023	4.06	3.3 years

Note 13: Warranty Provision

The following table summarizes the changes in accrued warranty liability from the period from December 31, 2007 to September 30, 2008:

	Gross Carrying Amount
Balance at December 31, 2007	$ 107
Warranties issued and adjustment of provision	81

Warranty claims		(4)
Balance at September 30, 2008*	$	184

* $9 of the warranty provision is included in other current liabilities and $175 in other liabilities at September 30, 2008

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The Company's warranty provision is based upon the Company's estimate of costs to be incurred during the warranty period.

Note 14: Fair Value Measurement

In September 2006, the FASB issued SFAS 157 which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair-value measurements. The Company adopted SFAS 157 effective January 1, 2008 for all financial assets and liabilities and any other assets and liabilities that are recognized or disclosed at fair value on a recurring basis. Although the adoption of SFAS 157 did not materially impact the Company's financial condition, results of operations or cash flows, the Company is required to provide additional disclosures within its condensed consolidated financial statements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer the liability (an exit price) in an orderly transaction between market participants and also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy within SFAS 157 distinguishes between three levels of inputs that may be utilized when measuring fair value including level 1 inputs (using quoted prices in active markets for identical assets or liabilities), level 2 inputs (using inputs other than level 1 prices such as quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability) and level 3 inputs (unobservable inputs supported by little or no market activity based on the company's own assumptions used to measure assets and liabilities). A financial asset's or liability's classification within the above hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company also adopted FAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). This standard permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years after November 15, 2007. The Company did not elect to apply the fair value option available under SFAS 159 for any of its eligible instruments.

Financial assets and liabilities measured at fair value on a recurring basis as at September 30, 2008 consisted of the following:

	Level 1	Level 2	Total
Available for sale securities	$ 2,312	—	$ 2,312

Marketable securities that are classified in Level 1 consist of available-for-sale securities for which market prices are readily available. Unrealized gains or losses from available-for-sale securities are recorded in Accumulated Other Comprehensive Income.

Note 15: Segment Information

The Company's current operations are based upon three operating segments:

- RT Solutions whose activities are focused on two areas - naval solutions and other real-time and embedded hardware & software development. RT Solutions activities are provided through the Company's DSIT Solutions Ltd. subsidiary.
- SCR (Selective Catalytic Reduction) Catalyst and Management Services conducted through the Company's CoaLogix subsidiary provides catalyst regeneration technologies and management services for SCR systems used by coal-fired power plants to reduce nitrogen oxides (NOx) emissions. As these activities were acquired in November 2007, there are no comparative results reported for these activities for the three and nine month periods ended September 30, 2007.
- Energy Infrastructure Software (EIS) services are provided through the Company's recently acquired Coreworx subsidiary (see Note 4). Coreworx is engaged in the design and delivery of project collaboration solutions for large capital projects. As these activities were acquired in August 2008, there are no comparative results reported for these activities for the three and nine month periods ended September 30, 2007.

Other operations include various operations in Israel that do not meet the quantitative thresholds of SFAS No. 131.

	RT Solutions	SCR	EIS*	Other	Total
Nine months ended September 30, 2008:					
Revenues from external customers	$ 5,340	$ 5,441	$ 767	$ 982	$ 12,530
Intersegment revenues	70	—	—	—	70
Segment gross profit	1,749	868	510	200	3,327
Segment income (loss)	165	(1,772)	(310)	(106)	(2,023)
Nine months ended September 30, 2007:					
Revenues from external customers	2,380	—	—	935	3,315
Intersegment revenues	—	—	—	—	—
Segment gross profit	750	—	—	64	814
Segment loss	(146)	—	—	(470)	(616)
Three months ended September 30, 2008:					
Revenues from external customers	1,745	1,840	767	276	4,628
Intersegment revenues	54	—	—	—	54
Segment gross profit (loss)	568	(234)	510	53	897
Segment loss	(24)	(1,361)	(310)	(64)	(1,759)
Three months ended September 30, 2007:					
Revenues from external customers	1,248	—	—	347	1,595
Intersegment revenues		—	—		—
Segment gross profit (loss)	459	—	—	14	473
Segment income (loss)	65	—	—	(99)	(34)

* For the EIS segment, the results shown for the three and nine month periods ended September 30, 2008 reflects the operations of Coreworx from August 13, 2008, the date of its acquisition by the Company, through September 30, 2008.

Reconciliation of Segment Income (Loss) to Consolidated Net Income

	Nine months ended September 30,		Three months ended September 30,	
	2007	2008	2007	2008
Total income (loss) for reportable segments	$ (146)	$ (1,917)	$ 65	$ (1,695)
Other operational segment loss	(470)	(106)	(99)	(64)
Total operating loss	(616)	(2,023)	(34)	(1,759)
Share of losses in Paketeria	(828)	(1,560)	(440)	(899)
Share of losses in GridSense	—	(194)	—	(60)
Acquired in-process research and development	—	(551)	—	(551)
Impairment of loans to Paketeria loans and investment to Local Power*	—	(3,000)	—	(2,454)
Minority interests	—	284	—	204
Gain on sale of Comverge shares	—	8,861	—	3,079
Gain recorded on Comverge public offering	16,169	—	—	—
Gain (loss) on outside investment in Company's equity investments, net	(37)	7	(37)	