

ACORN ENERGY, INC.
Form 10-K
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended **December 31, 2015** Commission file number: **001-33886**

ACORN ENERGY, INC.

(Exact name of registrant as specified in charter)

Delaware

22-2786081

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

3844 Kennett Pike, Wilmington, Delaware

19807

(Address of principal executive offices)

(Zip Code)

302-656-1707

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.01 per share

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of last day of the second fiscal quarter of 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$10.9 million based on the closing sale price on that date as reported on the NASDAQ Capital Market. As of March 25, 2016 there were 27,325,591 shares of Common Stock, \$0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

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Certain statements contained in this report are forward-looking in nature. These statements can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “will”, “should” or “anticipates”, or the negatives thereof, or comparable terminology, or by discussions of strategy. You are cautioned that our business and operations are subject to a variety of risks and uncertainties and, consequently, our actual results may materially differ from those projected by any forward-looking statements. Certain of such risks and uncertainties are discussed below under the heading “Item 1A. Risk Factors.”

AquaShield™, AquaShield ERT™, PointShield™, SeaShield™, NetShield™, SonoBarrier™, Blackfish 567™, Blackfish 911™, StructureShield™, StructureSense™, PerimeterShield™, TunnelShield™, PipeSafe™, PAUSS™ and LightLine™ are trademarks of DSIT Solutions Ltd. *GridSense®*, *HighV™*, *GridInSite™*, *CableIQ®*, *PowerMonic™*, *BreakerIQ®*, *LineIQ®*, *TransformerIQ®*, *DemandIQ™* and *DistributionIQ®* are trademarks of our GridSense subsidiaries. *OmniMetrix®*, *OmniView®*, *ScopeView™*, *TrueGuard™* and *TrueShield™* are trademarks of our OmniMetrix, LLC subsidiary.

PART I

ITEM 1. BUSINESS

OVERVIEW

Acorn Energy, Inc. (“Acorn” or “the Company”) is a holding company focused on technology driven solutions for energy infrastructure asset management. Each of our three businesses is focused on helping its customers achieve greater productivity, reliability, security and efficiency.

Through our majority or wholly-owned operating subsidiaries, we provide the following services and products:

Energy & Security Sonar Solutions. We provide sonar and acoustic related solutions for energy, defense and commercial markets with a focus on underwater site security for strategic energy installations and other advanced sonar and acoustic systems such as Hull Mounted Sonar systems (“HMS”) for surface ships and real-time embedded hardware and software development and production through our DSIT Solutions Ltd. (“DSIT”) subsidiary (see below).

Smart Grid Distribution Automation. These products and services are provided by our GridSense Inc. subsidiary (“GridSense”) which develops markets and sells remote monitoring and control systems to electric utilities and industrial facilities worldwide.

Machine-to-Machine (“M2M”) Critical Asset Monitoring & Control (formerly Power Generation (“PG”) Monitoring). These products and services are provided by our OmniMetrix™, LLC (“OmniMetrix”) subsidiary. OmniMetrix’s M2M products and services deliver critical, real-time machine information to customers and provide remote diagnostics and prognostics that give users real-time visibility of their equipment and assets.

During 2015, each of the abovementioned activities represented a reportable segment. In addition, our “Other” segment represents certain IT activities (protocol management software for cancer patients and billing software) and outsourced consulting activities performed by our DSIT subsidiary as well as Pipeline Monitoring (“PM”) activities (for remote monitoring of cathodic protection systems on gas pipelines for gas utilities and pipeline companies) in our OmniMetrix subsidiary, that do not meet the quantitative thresholds and which may be combined for reporting under applicable accounting principles. At December 31, 2015, our continuing operations are represented by three reporting segments: Energy & Security Sonar Solutions (DSIT), Smart Grid Distribution Automation (GridSense) and M2M (OmniMetrix).

In March 2015, the our Board of Directors decided that it would no longer continue to fund our US Seismic Systems, Inc. (“USSI”) subsidiary’s activities following the significant decline in oil prices which led to significantly reduced demand for USSI’s products. At that time, USSI effectively suspended operations and terminated substantially all employees. On September 30, 2015, USSI filed for a Chapter 7 Bankruptcy.

On January 28, 2016, Acorn entered into a Share Purchase Agreement for the sale of a portion of its interest in DSIT Solutions, Ltd. to Rafael Advanced Defense Systems Ltd., a major Israeli defense company. Following the closing of the sale of a portion of our holdings in DSIT (see Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments), we will own approximately 41.2% of DSIT and have limited representation on its Board. Accordingly, we will no longer be consolidating DSIT and will be reporting DSIT’s results on the equity method. Consequently, beginning in the second quarter of 2016, we will no longer be reporting segment information with respect to the Energy & Security Sonar Solutions segment.

We continually evaluate opportunities related to all of our portfolio companies and our goal is to maximize shareholder value and position our portfolio companies for a strategic event, which may include co-investment by one or more third parties and/or a sale of assets.

FINANCIAL RESULTS BY COMPANY

The following tables show, for the periods indicated, the financial results (dollar amounts in thousands) attributable to each of our consolidated companies.

	Year ended December 31, 2015				
	DSIT	GridSense	OmniMetrix	Acorn	Total Continuing Operations
Revenues	\$13,501	\$ 2,507	\$ 3,047	\$—	\$ 19,055
Cost of Sales	9,125	2,487	1,256	—	12,868
Gross profit	4,376	20	1,791	—	6,187
Gross profit margin	32 %	1 %	59 %		32 %
R& D expenses, net of credits	1,191	500	514	—	2,205
Selling, general and administrative expenses	3,162	1,876	2,830	3,640	11,508
Impairment of goodwill and intangibles	—	1,562	—	—	1,562
Operating income (loss)	\$23	\$ (3,918)	\$ (1,553)	\$(3,640)	\$ (9,088)

	Year ended December 31, 2014				
	DSIT	GridSense	OmniMetrix	Acorn	Total Continuing Operations
Revenues	\$12,311	\$ 4,493	\$ 2,756	\$—	\$ 19,560
Cost of Sales	8,576	3,196	1,150	—	12,922
Gross profit	3,735	1,297	1,606	—	6,638
Gross profit margin	30 %	29 %	58 %		34 %
R& D expenses, net of credits	1,002	1,096	616	—	2,714
Selling, general and administrative expenses	3,135	2,742	2,586	3,560	12,023
Impairment of goodwill and intangibles	—	1,773	—	—	1,773
Restructuring and related charges	—	198	96	—	294
Operating loss	\$(402)	\$ (4,512)	\$ (1,692)	\$(3,560)	\$ (10,166)

DSIT SOLUTIONS LTD.

During 2015 and until we close on the sale of a portion of our interest (see Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments), we own approximately 88.3% of DSIT (upon conversion of preferred stock, 78.7% on a fully diluted basis). We will own approximately 41.2% of DSIT following the sale of a portion of our interest in the company to Rafael Advanced Defense Systems Ltd. (“Rafael”), a major Israeli defense company. DSIT is a globally-oriented business based in Israel with expertise in sonar and acoustics and development capabilities in the areas of real-time and embedded systems. Based on these

capabilities, we offer a full range of sonar and acoustic-related solutions to strategic energy installations as well as defense and homeland security markets. In addition, based on expertise in fields such as signal acquisition and processing applications, telemetry and navigation technologies and command, control and communication management (“C3”) we provide wide ranging solutions to both governmental and commercial customers.

Products and Services

DSIT’s Energy & Security Sonar Solutions activities are focused on two areas – sonar and acoustic solutions for energy and security markets and other real-time and embedded hardware and software development and production.

Energy & Security Sonar Solutions. Our energy & security sonar solutions include a full range of sonar and acoustic-related solutions to the strategic energy installation, defense and homeland security markets. These solutions include:

AquaShield™ Diver Detection Sonar (“DDS”) – DSIT has developed an innovative, cost-effective DDS system, the AquaShield™, that provides critical coastal and offshore protection of sites through long-range detection, tracking, classification and warning of unauthorized divers and Swimmer Delivery Vehicles (“SDVs”) for rapid deployment and effective response. Our AquaShield™ DDS system is fully automatic and customizable, and requires human intervention only for final decision and response to the threat. The DDS sensors can be integrated with other sensors into a comprehensive command and control (“C&C”) system to provide a complete tactical picture both above and below the water for more intelligent evaluation of and effective response to threats.

PointShield™ Portable Diver Detection Sonar (PDDS) – The PointShield™ PDDS is a medium range portable diver detection sonar aimed at protecting vessels at anchorage and covers restricted areas such as water canals and intakes. The PointShield™ is a cost-effective system tailored to meet the needs of customers, whose main concern is portability and flexibility.

AquaShield-ER™ – The AquaShield-ER™ (extended range) DDS is similar to our AquaShield™ DDS except that it is specially designed to enable detection, tracking and classification of targets at much longer ranges thus enabling better response time when this is required for operational considerations.

Hull Mounted Sonar systems for surface ships – DSIT started its sonar activity 25 years ago building part of the HMS for the Israeli Navy SAAR 5 corvettes. Since then, a large portion of the sonar functions can be achieved using software which has reduced costs. In addition, DSIT has created sonar building blocks (see below) that enable it to offer to customers and shipyards a cost effective Hull Mounted Sonar with good performance at an affordable price.

Mobile/Portable Acoustic Range (“MAR/PAR”) – The MAR and PAR accurately measures a submarine’s or surface vessel’s radiated noise; thus enabling navies and shipyards to monitor and control the radiated noise and to silence their submarines and ships. By continuously tracking the measured vessel and transmitting the data to a measurement ship, the MAR system enables real time radiated noise processing, analysis and display. The system also includes a platform database for measurement results management and provides playback and post analysis capability.

Generic Sonar Simulator (“GSS”) – DSIT has developed a GSS for the rapid and comprehensive training of Anti-Submarine Warfare (“ASW”), submarine, and mine detection sonar operators. This advanced, low cost, PC-based training simulator is designed for all levels of sonar operators from beginners to the most experienced, including ship ASW teams. The simulator includes all aspects of sonar operation, with emphasis on training in weak target detection in the presence of noise and reverberation, torpedo detection, audio listening and classification. Based on this technology, DSIT expanded the application to include a full scale submarine tactical trainer.