

ACORN ENERGY, INC.
Form 10-Q
August 13, 2009

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, 2009

Commission file number: 0-19771

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

Delaware
(State or other jurisdiction of
incorporation or organization)

22-2786081
(I.R.S. Employer
Identification No.)

4 West Rockland Road
Montchanin, Delaware
(Address of principal executive offices)

19710
(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, 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 Exchange Act).

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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 9, 2009
Common Stock, \$0.01 par value per share	11,179,447 shares

ACORN ENERGY, INC.
 Quarterly Report on Form 10-Q
 for the Quarterly Period Ended June 30, 2009

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Certain statements contained in this report are forward-looking in nature. These statements are generally identified by the inclusion of phrases such as “we expect”, “we anticipate”, “we believe”, “we estimate” and other phrases of similar meaning. Whether such statements ultimately prove to be accurate depends upon a variety of factors that may affect our business and operations. Many of these factors are described in our most recent Annual Report on Form 10-K as filed with Securities and Exchange Commission 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, 2008	As of June 30, 2009 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,142	\$ 14,612
Restricted deposit	2,157	2,592
Accounts receivable, net	4,524	3,679
Unbilled work-in-process	581	1,880
Inventory	1,148	1,544
Available for sale - Investment in Comverge	—	392
Other current assets	2,080	1,944
Total current assets	25,632	26,643
Property and equipment, net	2,447	2,497
Available for sale - Investment in Comverge	2,462	—
Investment in GridSense	129	—
Investment in EnerTech	1,117	1,537
Funds in respect of employee termination benefits	1,677	1,739
Restricted deposit	579	561
Other intangible assets, net	10,357	10,067
Goodwill	6,342	6,425
Other assets	313	344
Total assets	\$ 51,055	\$ 49,813
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term bank credit and current maturities of long-term debt	\$ 445	\$ 200
Notes payable	3,400	3,400
Trade accounts payable	2,285	1,449
Accrued payroll, payroll taxes and social benefits	1,314	1,126
Other current liabilities	4,350	3,561
Total current liabilities	11,794	9,736
Long-term liabilities:		
Liability for employee termination benefits	2,651	2,689
Other liabilities	487	561
Total long-term liabilities	3,138	3,250
Equity:		
Acorn Energy Inc. Common stock - \$0.01 par value per share:		
Authorized – 20,000,000 shares; Issued – 12,454,528 at December 31, 2008 and June 30, 2009	124	124
Additional paid-in capital	54,735	55,746
Warrants	1,020	1,020
Accumulated deficit	(17,587)	(18,307)
Treasury stock, at cost – 841,286 and 1,258,681 shares for December 31, 2008 and June 30, 2009, respectively	(3,719)	(4,781)
Accumulated other comprehensive income (loss)	(425)	57

Total Acorn Energy Inc. shareholders' equity	34,148	33,859
Non-controlling interests	1,975	2,968
Total equity	36,123	36,827
Total liabilities and equity	\$ 51,055	\$ 49,813

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

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

	Six months ended June 30,		Three months ended June 30,	
	2008	2009	2008	2009
Sales				
Catalytic regeneration services	\$ 3,601	\$ 9,937	\$ 1,352	\$ 4,547
Projects	4,041	4,002	2,133	2,036
Software license and services	—	2,102	—	1,075
Other	260	217	122	122
	7,902	16,258	3,607	7,780
Cost of sales				
Catalytic regeneration services	2,498	6,466	1,007	2,931
Projects	2,777	2,351	1,470	1,132
Software license and services	—	416	—	145
Other	197	156	98	82
	5,472	9,389	2,575	4,290
Gross profit	2,430	6,869	1,032	3,490
Operating expenses:				
Research and development expenses, net of SRED credits of \$1,016 in 2009	108	(348)	57	(624)
Impairments	516	80	268	10
Selling, general and administrative expenses	4,723	8,727	2,418	4,619
Total operating expenses	5,347	8,459	2,743	4,005
Operating loss	(2,917)	(1,590)	(1,711)	(515)
Gain on early redemption of convertible debentures	1,259	—	—	—
Finance income (expense), net	(2,900)	(84)	88	85
Gain on sale of Comverge shares	5,782	1,227	5,782	810
Income (loss) before taxes on income	1,224	(447)	4,159	380
Tax benefit (expense) on income	2	—	(640)	—
Income (loss) from operations of the Company and its consolidated subsidiaries	1,226	(447)	3,519	380
Share in losses of GridSense	(134)	(129)	(134)	—
Share in losses of Paketeria	(661)	—	(374)	—
Net income (loss)	431	(576)	3,011	380
Net (income) loss attributable to non-controlling interests	80	(144)	89	(37)
Net income (loss) attributable to Acorn Energy Inc.	\$ 511	\$ (720)	\$ 3,100	\$ 343
Basic and diluted earnings per share attributable to Acorn Energy Inc.:				
Net income (loss) per share attributable to Acorn Energy Inc. – basic	\$ 0.05	\$ (0.06)	\$ 0.28	\$ 0.03
Net income (loss) per share attributable to Acorn Energy Inc. – diluted	\$ 0.04	\$ (0.06)	\$ 0.26	\$ 0.03
Weighted average number of shares outstanding attributable to Acorn Energy Inc. – basic	11,138	11,456	11,243	11,377
Weighted average number of shares outstanding attributable to Acorn Energy Inc. – diluted	11,995	11,456	12,138	11,553

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

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

	Number of Shares	Common Stock	Additional Paid-In Capital	Warrants	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non- controlling interests	Total
Balances as of December 31, 2008	12,455	\$ 124	\$ 54,735	\$ 1,020	\$ (17,587)	\$ (3,719)	\$ (425)	\$ 1,975	\$ 36,123
Net income (loss)	—	—	—	—	(720)	—	—	144	(576)
FAS 115 adjustment on Comverge shares	—	—	—	—	—	—	384	—	384
Differences from translation of financial statements of subsidiaries and equity investees	—	—	—	—	—	—	98	—	98
Comprehensive income	—	—	—	—	—	—	—	—	94
Purchase of treasury shares	—	—	—	—	—	(1,062)	—	—	(1,062)
Issuance of shares by CoaLogix to Acorn and non-controlling interests shareholders	—	—	245	—	—	—	—	849	1,094
Stock option compensation	—	—	425	—	—	—	—	—	425
Stock option compensation of subsidiaries	—	—	341	—	—	—	—	—	341
Balances as of June 30, 2009	12,455	\$ 124	\$ 55,746	\$ 1,020	\$ (18,307)	\$ (4,781)	\$ 57	\$ 2,968	\$ 36,827

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)

	Six months ended June 30,	
	2008	2009
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ 431	\$ (576)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	551	893
Share in losses of Paketeria	650	—
Share in losses of GridSense	134	129
Exchange rate adjustment on restricted deposits		83
Exchange rate adjustment on amounts funded for employee termination benefits net of exchange adjustment on liability for employee termination benefits	102	(22)
Increase in liability for employee termination benefits	150	107
Deferred income taxes	10	—
Amortization of stock-based deferred compensation	610	766
Amortization of beneficial conversion feature, debt origination costs and value of warrants in private placement of Debentures	3,064	—
Gain on early redemption of Debentures	(1,259)	—
Impairments	516	80
Gain on sale of Comverge shares	(5,782)	(1,227)
Other	14	—
Change in operating assets and liabilities:		
Decrease (increase) in accounts receivable, unbilled work-in process and other current and other assets	47	(301)
Increase in inventory	(408)	(396)
Increase in accounts payable, accrued payroll, payroll taxes and social benefits, other current liabilities and other liabilities	(826)	(1,620)
Net cash used in operating activities	(1,996)	(2,084)
Cash flows provided by (used in) investing activities:		
Proceeds from sale of Comverge shares	9,682	3,569
Proceeds from sale of covered calls	—	112
Investment in EnerTech	—	(500)
Payment for DSIT shares from exercise of put option	—	(294)
Investment in GridSense	(1,153)	—
Restricted deposits	(1,404)	(500)
Loans to investee and potential investee companies	(3,571)	—
Transaction costs in 2007 acquisition of SCR Tech	(956)	—
Amounts funded for employee termination benefits	(96)	(116)
Utilization of employee termination benefits	2	7
Acquisition of license	(2,000)	—
Acquisitions of property and equipment	(275)	(414)
Net cash provided by investing activities	229	1,864
Cash flows provided by (used in) financing activities:		
Short-term debt borrowings, net	(590)	(241)
Repayments of long-term debt	(117)	(4)

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Purchase of treasury shares	—	(1,062)
Redemption of Convertible Debentures	(3,443)	—
Issuance of shares to non-controlling interest in consolidated subsidiary	2,226	1,094
Proceeds from employee stock option and warrant exercises	755	—
Net cash used in financing activities	(1,169)	(213)
Effect of exchange rate changes on cash and cash equivalents	—	(97)
Net decrease in cash and cash equivalents	(2,936)	(530)
Cash and cash equivalents at beginning of period	19,644	15,142
Cash and cash equivalents at end of period	16,708	14,612

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)

	Six months ended June 30,	
	2008	2009
Non-cash investing and finance items:		
Unrealized gain (loss) from Converge shares	\$ (37,570)	\$ 384
Reduction of deferred tax liability with respect to unrealized loss from Converge shares	\$ 14,498	
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	
Conversion of Debentures to common stock and additional paid-in-capital	\$ 2,963	
Intangibles acquired by Coreworx in consideration for future royalties		\$ 99
Adjustment of additional paid-in-capital and non-controlling interests from investment in CoaLogix by non-controlling interests		\$ 245

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 six and three-month periods ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. 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, 2008.

Effective January 1, 2009, the Company implemented Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No. 51, or SFAS 160. This standard changed the accounting for and reporting of minority interests (now called noncontrolling interests) in the Company’s consolidated financial statements. Upon adoption, certain prior period amounts have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on the Company’s previously reported financial position or results of operations (See Note 2).

Note 2: New Accounting Standards

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”) which replaces SFAS No. 141, “Business Combination”. SFAS 141R establishes the principles and requirements for how an acquirer: (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (3) discloses the business combination. This Statement applies to all transactions in which an entity obtains control of one or more businesses, including transactions that occur without the transfer of any type of consideration. SFAS 141R is effective on a prospective basis for all business combinations on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. The adoption of SFAS 141R had no material impact on the Company’s financial statements.

In December 2007, the FASB issued SFAS No. 160 “Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51” (“SFAS 160”). SFAS 160 amends ARB No. 51 and establishes accounting and reporting standards that require noncontrolling interests (previously referred to as minority interest) to be reported as a component of equity, changes in a parent’s ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and upon a loss of control, retained ownership interest will be remeasured at fair value, with any gain or loss recognized in earnings. Prior to adoption of SFAS 160 on January 1, 2009, the Company had stopped attributing losses to its DSIT subsidiary because the losses exceeded the carrying amount of the noncontrolling interest. Upon adoption of SFAS 160, the Company prospectively attributes income and losses to the noncontrolling interests associated with DSIT. The presentation and disclosure requirements of SFAS 160 were applied retrospectively. Other than the change in presentation of noncontrolling interests and the treatment of noncontrolling interests associated with DSIT and CoaLogix, the adoption of SFAS 160 had no impact on the Company’s financial statements.

In March 2008, FASB issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("FAS 161"). FAS 161 amends and expands the disclosure requirements of FAS 133 to clarify how and why companies use derivative instruments. In addition, FAS 161 requires more disclosures regarding how companies account for derivative instruments and the impact derivatives have on a company's financial statements. Other than the required disclosures (see Note 15) the adoption of SFAS 161 had no impact on the Company's financial statements.

In April 2008, the FASB issued FASB Staff Position (the "FSP") FAS No. 142-3, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under FAS No. 142, "Goodwill and Other Intangible Assets." The FSP requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141, "Business Combinations.". The adoption of FSP FAS 142-3 had no impact on the Company's financial statements.

In April 2009, the Financial Accounting Standards Board (FASB) issued three related Staff Positions (FSP): (i) FSP 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly," or FSP FAS 157-4, (ii) FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," or FSP FAS 115-2, and (iii) FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," or FSP FAS 107-1, which will be effective for interim and annual periods ending after June 15, 2009. FSP FAS 157-4 provides guidance on how to determine the fair value of assets and liabilities under SFAS No. 157 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If the Company was to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value and the Company may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP FAS 115-2 modifies the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities, by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. FSP FAS 107-1 enhances the disclosure of instruments under the scope of SFAS No. 157 for both interim and annual periods. The Company's adoption of these Staff Positions did not have a material impact on its consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events". This standard is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for fiscal years and interim periods ended after June 15, 2009 and will be applied prospectively. The adoption of SFAS No. 165 did not have a material impact on the Company's financial statements.

In June 2009, the FASB issued SFAS 167, Amendments to FASB Interpretation No. 46(R), which changes the approach to determining the primary beneficiary of a variable interest entity ("VIE") and requires companies to more frequently assess whether they must consolidate VIEs. This new standard is effective for the Company beginning on January 1, 2010. The Company is currently assessing the potential impacts, if any, on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles”. This standard replaces SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles”, and establishes only two levels of U.S. generally accepted accounting principles (“GAAP”), authoritative and non-authoritative. The FASB Accounting Standards Codification (the “Codification”) will become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (“SEC”), which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. The Company will begin to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the third quarter of fiscal 2010. As the Codification was not intended to change or alter existing GAAP, it will not have any impact on the Company’s financial statements.

Note 3: Inventory

	As of December 31, 2008	As of June 30, 2009
Raw materials	\$ 720	\$ 783
Finished goods	428	761
	\$ 1,148	\$ 1,544

Note 4: Investment in Comverge Inc. (Comverge)

During the six months ended June 30, 2009, the Company sold 470,100 of its 502,500 Comverge shares held at the beginning of 2009. The Company received proceeds of \$3,647 (included \$78 received from covered-call options and allocated to shares sold – see below) and recorded a pre-tax gain of \$1,227 on the sale of these shares.

The Company’s remaining 32,400 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 \$12.10 at June 30, 2009 which resulted in an adjustment to the carrying value to reflect a fair market value of \$392.

The Company has entered into “covered-call” options for 32,100 of its remaining Comverge shares. The covered-call options obligate the Company to sell 29,200 and 2,900 of its Comverge shares in September 2009 at \$10.00 and \$7.50 per share, respectively, should the option holder exercise the option. In addition, during the second quarter of 2009, the Company also entered into covered-call options for its Comverge shares. The Company received proceeds of \$112 as a result of these covered-call transactions of which \$78 related to covered-calls which expired in the second quarter of 2009 and \$34 which relates to covered-calls which will expire in the third quarter of 2009. The proceeds from the covered-call transactions were recorded as a reduction in the Company’s Investment in Comverge. At June 30, 2009, the fair market value of the remaining covered-call options was a loss of \$65 which is included in Finance income (expense) and Other Current Liabilities. As a result of entering into the covered-call options, the Company has classified its remaining 32,400 shares of Comverge shares as a current asset.

Note 5: CoaLogix

On April 8, 2009, the Company entered into a Common Stock Purchase Agreement (the “Purchase Agreement”) with the Company’s 85% owned CoaLogix Inc. subsidiary, EnerTech Capital Partners III L.P. (“EnerTech”) and certain members of CoaLogix’s senior management pursuant to which each of the Company and EnerTech agreed to purchase from CoaLogix 781,111 shares of common stock for a purchase price of \$5,624, and certain members of CoaLogix’s senior management agreed to purchase 36,111 shares of common stock of CoaLogix for an aggregate purchase price

of \$260 for a total of \$11,508. The Purchase Agreement provides that the Company, EnerTech and senior management will purchase such shares of common stock in stages as funding is needed by CoaLogix for plant expansion, technology development, legal expenses and computer software. Following completion of all the stages of the stock purchase under the Purchase Agreement, the Company would own approximately 72.3% of CoaLogix.

The Company's share of the first stage of the stock purchase under the Purchase Agreement was \$1,046. The Company transferred this amount to CoaLogix in April 2009 and was issued 145,254 shares of CoaLogix common stock. Concurrently, EnerTech and CoaLogix's senior management's share of the first stage of the stock purchase under the Purchase Agreement was \$1,094. CoaLogix received these amounts from EnerTech and CoaLogix senior management in April 2009 and was issued 145,254 and 6,715 shares of CoaLogix common stock, respectively. As a result of these issuances of shares, the Company's holdings in CoaLogix were diluted to approximately 81.7%.

As part of the Purchase Agreement, CoaLogix granted additional options to purchase ordinary shares to its senior management (see Note 11(b)). In accordance with SFAS 160, the Company recorded an increase of \$245 in Additional Paid-in-Capital as a result of the \$1,094 investment by non-controlling interests in April 2009.

Note 6: Non-Controlling Interests

The following schedule presents the effects of changes in the Company's ownership interests in its subsidiaries on the Company's equity.

Net Income Attributable to Acorn Energy Inc. and Transfers to (from) the Noncontrolling Interest		
	Six months ended	
	June 30, 2008	June 30, 2009
Net income attributable to Acorn Energy, Inc.	\$ 511	\$ (720)
Transfers to (from) the non-controlling interest:		