ACORN ENERGY, INC.
Form 10-Q
November 12, 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 September 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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 6, 2009
Common Stock, $0.01 par value per share	11,646,788 shares

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

TABLE OF CONTENTS

PART I. Financial Information		
Item 1.	Financial Statements	
	Unaudited Consolidated Financial Statements:	
	Consolidated Balance Sheets as of December 31, 2008 and September 30, 2009	1
	Consolidated Statements of Operations for the nine and three month periods ended September 30, 2008 and 2009	2
	Consolidated Statement of Changes in Equity for the nine month period ended September 30, 2009	3
	Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2008 and 2009	4
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	30
Item 4.	Controls and Procedures	31
PART II. Other Information		
Item 1.	Legal Proceedings	32
Item 2 .	Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 4 .	Submission of Matters to a Vote of Security Holders	35
Item 6.	Exhibits	36
Signatures		37

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.

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

	As of December 31, 2008	As of September 30, 2009 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,142	$ 12,018
Restricted deposit	2,157	970
Accounts receivable, net	4,524	4,606
Unbilled work-in-process	581	1,728
Inventory	1,148	2,493
Other current assets	2,080	2,071
Total current assets	25,632	23,886
Property and equipment, net	2,447	2,901
Available for sale - Investment in Comverge	2,462	—
Investment in GridSense	129	—
Investment in EnerTech	1,117	2,037
Funds in respect of employee termination benefits	1,677	1,863
Restricted deposit	579	—
Other intangible assets, net	10,357	10,085
Goodwill	6,342	6,637
Other assets	313	355
Total assets	$ 51,055	$ 47,764
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term bank credit and current maturities of long-term debt	$ 445	$ 820
Notes payable	3,400	—
Trade accounts payable	2,285	2,391
Accrued payroll, payroll taxes and social benefits	1,314	1,319
Other current liabilities	4,350	3,196
Total current liabilities	11,794	7,726
Long-term liabilities:		
Liability for employee termination benefits	2,651	2,892
Other liabilities	487	581
Total long-term liabilities	3,138	3,473
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 12,485,086 at September 30, 2009	124	124
Additional paid-in capital	54,735	56,460
Warrants	1,020	978
Accumulated deficit	(17,587)	(19,531)
Treasury stock, at cost – 841,286 and 1,275,081 shares for December 31, 2008 and September 30, 2009, respectively	(3,719)	(4,827)
Accumulated other comprehensive loss	(425)	(208)

Total Acorn Energy Inc. shareholders' equity		34,148		32,996
Non-controlling interests		1,975		3,569
Total equity		36,123		36,565
Total liabilities and equity	$	51,055	$	47,764

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

1

ACORN ENERGY, INC. AND SUBSIDIARIES

Consolidated Statements of Operations (unaudited)
(in thousands, except per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2008	2009	2008	2009
Sales				
Catalytic regeneration services	$ 5,441	$ 12,761	$ 1,840	$ 2,824
Projects	5,959	6,156	1,918	2,154
Software license and services	767	3,487	767	1,385
Other	363	317	103	100
	12,530	22,721	4,628	6,463
Cost of sales				
Catalytic regeneration services	4,573	8,592	2,075	2,126
Projects	4,091	3,566	1,314	1,215
Software license and services	257	599	257	183
Other	282	234	85	78
	9,203	12,991	3,731	3,602
Gross profit	3,327	9,730	897	2,861
Operating expenses:				
Research and development expenses, net of SRED credits of $1,016 in the nine months ended September 30, 2009	510	76	402	424
Acquired in-process research and development	551	—	551	—
Impairments	3,000	80	2,454	—
Selling, general and administrative expenses	8,094	13,292	3,401	4,565
Total operating expenses	12,155	13,448	6,808	4,989
Operating loss	(8,828)	(3,718)	(5,911)	(2,128)
Gain on early redemption of convertible debentures	1,259	—	—	—
Finance income (expense), net	(2,950)	213	(50)	297
Gain on sale of Comverge shares	8,861	1,403	3,079	176
Gain on outside investment in Company’s equity investments, net	7	—	7	—
Loss before taxes on income	(1,651)	(2,102)	(2,875)	(1,655)
Tax benefit (expense) on income	(689)	72	(691)	72
Loss from operations of the Company and its consolidated subsidiaries	(2,340)	(2,030)	(3,566)	(1,583)
Share in losses of GridSense	(194)	(129)	(60)	—
Share in income (losses) of Paketeria	(1,560)	263	(899)	263
Net loss	(4,094)	(1,896)	(4,525)	(1,320)
Net (income) loss attributable to non-controlling interests	284	(48)	204	96
Net loss attributable to Acorn Energy Inc.	$ (3,810)	$ (1,944)	$ (4,321)	$ (1,224)
Basic and diluted earnings per share attributable to Acorn Energy Inc.:				
Net loss per share attributable to Acorn Energy Inc. – basic and diluted	$ (0.34)	$ (0.17)	$ (0.37)	$ (0.11)
Weighted average number of shares outstanding attributable to Acorn Energy Inc. – basic and diluted	11,285	11,365	11,538	11,186

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)	—	—	—	—	(1,944)	—	—	48	(1,896)
Adjustment to fair market value on Comverge shares	—	—	—	—	—	—	125	—	125
Differences from translation of financial statements of subsidiaries	—	—	—	—	—	—	92	—	92
Comprehensive income	—	—	—	—	—	—		—	(1,679)
Purchase of treasury shares	—	—	—	—	—	(1,108)		—	(1,108)
Exercise of options and warrants	30	—	139	(42)	—	—	—	—	97
Sale by CoaLogix of CoaLogix shares to Acorn and non-controlling interests	—	—	445	—	—	—	—	1,546	1,991
Stock option compensation	—	—	593	—	—	—	—	—	593
Stock option compensation of subsidiaries	—	—	548	—	—	—	—	—	548
Balances as of September 30, 2009	12,485	$ 124	$ 56,460	$ 978	$ (19,531)	$ (4,827)	$ (208)	$ 3,569	$ 36,565

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

3

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

	Nine months ended September 30, 2008	Nine months ended September 30, 2009
Cash flows used in operating activities:		
Net loss	$ (4,094)	$ (1,896)
Adjustments to reconcile net loss to net cash used in operating activities (see Schedule A):	(222)	(2,245)
Net cash used in operating activities	(4,316)	(4,141)
Cash flows provided by (used in) investing activities:		
Proceeds from sale of Comverge shares and covered calls	15,355	3,990
Investment in EnerTech	(750)	(1,000)
Payment for DSIT shares from exercise of put option	—	(294)
Investment in GridSense	(1,153)	—
Restricted deposits	(1,437)	(670)
Release of restricted deposits	—	2,468
Loans provided to Paketeria	(2,551)	—
Loans provided to GridSense	(736)	—
Loans provided to EES	(200)	—
Loans provided to Local Power	(250)	—
Loan and accrued interest to Coreworx in contemplation of acquisition	(1,563)	—
Transaction costs in 2007 acquisition of SCR Tech	(956)	—
Amounts funded for employee termination benefits	(178)	(180)
Utilization of employee termination benefits	28	21
Acquisition of license	(2,000)	—
Acquisitions of property and equipment	(1,327)	(983)
Acquisition of Coreworx net of cash acquired (see Schedule B)	(2,466)	—
Net cash provided by (used in) investing activities	(184)	3,352
Cash flows provided by (used in) financing activities:		
Short-term debt borrowings, net	(67)	379
Repayments of long-term debt	(189)	(4)
Repayments of notes payable due to former shareholders of Coreworx	—	(3,400)
Purchase of treasury shares	—	(1,108)
Redemption of Convertible Debentures	(3,443)	—
Issuance of shares to non-controlling interest in consolidated subsidiary	2,226	1,991
Proceeds from employee stock option and warrant exercises	764	97
Net cash used in financing activities	(709)	(2,045)
Effect of exchange rate changes on cash and cash equivalents	—	(290)
Net decrease in cash and cash equivalents	(5,209)	(3,124)
Cash and cash equivalents at beginning of period	19,644	15,142
Cash and cash equivalents at end of period	$ 14,435	$ 12,018

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, 2008	Nine months ended September 30, 2009
Schedule A:		
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	888	1,359
Acquired in-process research and development	551	—
Share in losses of Paketeria	1,535	(263)
Share in losses of GridSense	194	129
Exchange rate adjustment on restricted deposits	—	(32)
Exchange rate adjustment on amounts funded for employee termination benefits net of exchange adjustment on liability for employee termination benefits	234	11
Exchange loss on loans to Paketeria and GridSense	129	—
Increase in liability for employee termination benefits	184	203
Deferred income taxes	893	—
Amortization of stock-based deferred compensation	1,014	1,141
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	3,000	80
Gain on outside investment in Company's equity investments, net	(7)	—
Gain on sale of Comverge shares	(8,861)	(1,403)
Other	2	—
Change in operating assets and liabilities:		
Increase in accounts receivable, unbilled work-in process and other current and other assets	(2,240)	(1,148)
Increase in inventory	(683)	(1,345)
Increase (decrease) in accounts payable, accrued payroll, payroll taxes and social benefits, other current liabilities and other liabilities	1,140	(977)
Net cash used in operating activities	$ (222)	$ (2,245)

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.

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

	Nine months ended September 30,	
	2008	2009
Non-cash items:		
Unrealized loss from Comverge shares	$ (46,733)	
Reduction of deferred tax liability with respect to unrealized loss from Comverge shares	$ (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	
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		$ 445

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 and three-month periods ended September 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 the principles of Accounting Standards Codification ("ASC") ASC Subtopic 810-10-65 (originally issued as Statement of Financial Accounting Standard ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements"). These principles 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 Pronouncements

With the exception of those stated below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2009, as compared to the recent accounting pronouncements described in the Annual Report that are of material significance, or have potential material significance, to the Company.

In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Codification ("ASC") No. 105, Generally Accepted Accounting Principles ("GAAP") ("ASC 105" or "FASB Codification"), previously referred to as SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No 162 ("SFAS 168"). The effective date for use of the FASB Codification is for interim and annual periods ending after September 15, 2009. Companies should account for the adoption of the guidance on a prospective basis. Effective July 1, 2009, the Company adopted the FASB Codification and its adoption did not have a material impact on its consolidated financial statements. The Company has appropriately updated its disclosures with the appropriate FASB Codification references during the three months ended September 30, 2009. As such, all the notes to the condensed consolidated financial statements below have been updated with the appropriate FASB Codification references.

In December 2007, the FASB issued ASC No. 805, Business Combinations ("ASC 805"), previously referred to as SFAS 141 (revised 2007), Business Combinations. ASC 805 will significantly change current practices regarding business combinations. Among the more significant changes, ASC 805 expands the definition of a business and a business combination; requires the acquirer to recognize the assets acquired, liabilities assumed and noncontrolling interests (including goodwill), measured at fair value at the acquisition date; requires acquisition-related expenses and restructuring costs to be recognized separately from the business combination; and requires in-process research and

development to be capitalized at fair value as an indefinite-lived intangible asset. ASC 805 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company adopted the provisions of ASC 805 on January 1, 2009 and the adoption did not have a significant impact on the Company's consolidated financial statements. However, if the Company enters into material business combinations in the future, a transaction may significantly impact the Company's consolidated financial statements as compared to the Company's previous acquisitions accounted for under prior GAAP requirements, due to the changes described above.

In December 2007, the FASB issued ASC No. 810-10-65, Transition Related to Noncontrolling Interests in Consolidated Financial Statement (“ASC 810-10-65”), previously referred to as SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements — an amendment of Accounting Research Bulletin (“ARB”) No. 51. ASC 810-10-65 is effective for financial statements issued for fiscal years beginning after December 15, 2008. ASC 810-10-65 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, the FASB issued ASC No. 815-10-65, Transition Related to Disclosures about Derivative Instruments and Hedging Activities (“ASC 815-10-65”), previously referred to as SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133, which requires additional disclosures about the objectives of using derivative instruments, the method by which the derivative instruments and related hedged items are accounted for under ASC No. 815, Derivatives and Hedging (“ASC 815”), previously referred to as FASB Statement No.133 and its related interpretations, and the effect of derivative instruments and related hedged items on financial position, financial performance, and cash flows. ASC 815 also requires disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. Per ASC 815-10-65, the additional disclosures about derivatives and hedging activities mentioned above are required for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company adopted the provisions mentioned above effective January 1, 2009 and other than the required disclosures (see Note 16), its adoption did not have a material impact on its consolidated financial statements.

In April 2009, the FASB issued ASC No. 805-10-35, Business Combinations Subsequent Measurement (“ASC 805-10-35”), which discusses the accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies, which was previously discussed in FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. ASC 805-10-35 addresses application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The provisions under ASC 805-10-35 relating to assets acquired and liabilities assumed in a business combination that arise from contingencies are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted the provisions of ASC 805 on January 1, 2009 and the adoption did not have a significant impact on the Company’s consolidated financial statements. However, if the Company enters into material business combinations in the future, a transaction may significantly impact the Company’s consolidated financial statements as compared to the Company’s previous acquisitions, accounted for under prior GAAP requirements, due to the changes described above.

In May 2009, the FASB issued ASC No. 855, Subsequent Events ("ASC 855"), previously referred to as SFAS No. 165, Subsequent Events. ASC 855 should be applied to the accounting for and disclosure of subsequent events. This Statement does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. ASC 855 would apply to both interim financial statements and annual financial statements. The objective of ASC 855 is 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. In particular, this Statement sets forth: 1) 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; 2) The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and, 3) The disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855 is effective for interim or annual financial periods ending after June 15, 2009. The Company adopted this standard effective April 1, 2009 and the Company's adoption did not have a material impact on its consolidated financial statements.

On January 1, 2009, the Company adopted FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets, ("FSP No. FAS 142-3"), which is codified primarily in ASC Subtopic 350-30, General Intangibles Other than Goodwill. This pronouncement prospectively amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC Topic 350, Intangibles – Goodwill and Other. Adoption of FSP No. FAS 142-3 did not have a material effect on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS 166, "Accounting for Transfers of Financial Assets" and SFAS 167, "Amendments to FASB Interpretation No. 46(R)", which update accounting for securitizations and special-purpose entities. SFAS 166 is a revision to FASB ASC 860, "Transfers and Servicing" (previously referred to as SFAS 140) and will require additional information regarding financial asset transfers, including securitization transactions, and the presence of continuing exposure around the risks related to transferred financial assets. It removes the concept of a qualifying special-purpose entity from FASB ASC 810, "Consolidation" (previously referred to as SFAS 140) and removes the exception from applying FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities", to variable interest entities that are qualifying special-purpose entities. SFAS 167 is a revision to FASB Interpretation No. 46(R) and modifies a company's determination of consolidating an entity that is insufficiently capitalized or is not controlled through voting or similar ownership rights. SFAS 166 and 167 will be effective January 1, 2010, and are effective for interim periods within the first annual reporting period. Earlier application is prohibited. The Company is currently evaluating the possible impact from the implementation of SFAS 166 or 167 on its financial statements.

In October 2009, the FASB issued Accounting Standard Update No. 2009-13 on Topic 605, Revenue Recognition– Multiple Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force. The objective of this Update is to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Vendors often provide multiple products or services to their customers. Those deliverables often are provided at different points in time or over different time periods. This Update provides amendments to the criteria in Subtopic 605-25 for separating consideration in multiple-deliverable arrangements. The amendments in this Update establish a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor specific objective evidence nor third-party evidence is available. The amendments in this Update also will replace the term fair value in the revenue allocation guidance with selling price to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant. This update is effective for fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact, if any, of this new accounting update on its consolidated financial statements.

Note 3: Inventory

	As of December 31, 2008	As of September 30, 2009
Raw materials	$ 720	$ 712
Finished goods	428	1,781
	$ 1,148	$ 2,493

Note 4: Investment in Comverge Inc. (Comverge)

During the nine months ended September 30, 2009, the Company sold all of the 502,500 Comverge shares held at the beginning of 2009. The Company received proceeds of $3,990 (including $112 received from covered-call options) and recorded a pre-tax gain of $1,403 on the sale of these shares.

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 two stages of the stock purchase under the Purchase Agreement was $1,904. The Company transferred this amount to CoaLogix and was issued 264,375 shares of CoaLogix common stock. Concurrently, EnerTech and CoaLogix’s senior management’s share of the first two stages of the stock purchase under the Purchase Agreement was $1,991. CoaLogix received these amounts from EnerTech and CoaLogix senior management issued 264,375 and 12,223 shares of CoaLogix common stock, respectively. As a result of these issuances of shares, the Company’s holdings in CoaLogix were diluted to approximately 79.4%. In accordance with ASC Subtopic 810-10-65, the Company recorded an increase of $445 in Additional Paid-in-Capital as a result of the

$1,991 investment by non-controlling interests.

As part of the Purchase Agreement, CoaLogix granted additional options to purchase shares of common stock to its senior management (see Note 12(b)).

Note 6: Investment in EnerTech

In April 2009, the Company received a capital call of $500 from EnerTech relating to the Company's investment in EnerTech. The Company funded the capital call in April 2009. In September 2009, the Company received another capital call of $500 from EnerTech. This capital call was funded in September 2009. To date, the Company has funded $2,150 of its $5,000 investment commitment in EnerTech.

Note 7: Privatization of GridSense

On June 15, 2009, GridSense Systems Inc. ("GSI") effectively completed a plan which was approved by a majority of GSI shareholders in February 2009, whereby GSI transferred its grid monitoring business to a newly formed private Australian corporation known as Gridsense Pty Ltd. ("GPL"). Concurrently, certain GSI shareholders (including Acorn) transferred their shares to a third party and received shares in GPL. Under the plan, GPL assumed all the debt of GSI including its debt to Acorn (CDN$750 ($701)) which was previously fully written down by Acorn as an impairment). As a result, the Company's percentage ownership in the grid monitoring business increased from approximately 23% (in GSI) to approximately 31% of the newly formed Australian corporation (GPL). The Company recorded no gain or loss on the privatization transaction. The carrying value of the Company's investment in GPL is zero as was the carrying value of the Company's investment in GSI prior to the going private transaction.

Note 8: Acquisition of ProExecute Licensed Technology

On April 23, 2009, the Company's Coreworx subsidiary signed an agreement with ProExecute LLC for the rights to its Contract Management Solution technology ("ProExecute"). With the acquisition of ProExecute, Coreworx will now be extending its Project Information Control software platform, which is used for managing complex engineering documentation and information exchange among design professionals, external engineering firms and contractors, to include an integrated contract and document management solution designed to address the complete construction contract life cycle.

Upon analysis, the Company has determined that the acquisition of ProExecute should be recorded as a business acquisition under the principles of ASC Subtopic 805-10-55 (originally issued as SFAS No. 141(R), "Business Combinations"), as Coreworx acquired substantially all of the net assets of the ProExecute business including its core intellectual property, full use of ProExecute's physical assets, as well as the access to all intellectual knowledge.

In accordance with ASC Subtopic 805-20-30 (originally issued as SFAS No. 141(R), "Business Combinations"), the Company recorded the assets acquired and the liabilities assumed (including any contractual contingencies) measured at their fair values as of the date of acquisition. The Company determined that fair value of the acquired assets on the date of acquisition was $99 all of which was allocated to license technology – an amortizable intangible asset. This asset is being amortized over a 30-month period and is included in the Company's EIS segment (see Note 11). Additionally, the Company recorded as a liability the fair value of expected future royalty fees payable ($81 included in other current liabilities and $18 in other liabilities) with respect to the acquisition of ProExecute.

Note 9: Paketeria

In the third quarter of 2009, liquidation proceedings began with respect to Paketeria AG ("Paketeria"). The Company's net investment in Paketeria had previously been written down to zero. As a result of the liquidation proceedings, the Company eliminated the previously recorded cumulative translation adjustment of $263 associated with the investment in Paketeria and recognized that amount as Share of Income in Paketeria.

Note 10: 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

	Nine months ended September 30,			
		2008		2009
Net loss attributable to Acorn Energy, Inc.	$	(3,810)	$	(1,944)
Transfers to (from) the non-controlling interests:				
Increase in Acorn Energy Inc.'s Additional Paid-in-Capital from sale by CoaLogix of its shares to non-controlling interests		—		445
Net transfers to non-controlling interest		—		445
Changes from net income attributable to Acorn Energy, Inc. and transfers to (from) non-controlling interests	$	(3,810)	$	(1,499)

Note 11: Goodwill and Other Intangible Assets

The changes in the carrying amounts of goodwill from December 31, 2008 to September 30, 2009 were as follows:

		CoaLogix		Naval & RT Solutions		EIS		Total
Balance as of December 31, 2008		3,714	$	530	$	2,098	$	6,342
Translation adjustment		—		6		289		295
Balance as of September 30, 2009	$	3,714	$	536	$	2,387	$	6,637

The changes in the carrying amounts and accumulated amortization of intangible assets from December 31, 2008 to September 30, 2009 were as follows:

	CoaLogix*		Naval Technologies		EIS**		Total
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Net
Balance as of December 31, 2008	$ 7,511	$ (761)	$ 523	$ (48)	$ 3,214	$ (82)	$ 10,357
Acquisition (see Note 8)	—	—	—	—	99	—	99
Amortization	—	(562)	—	(59)	—	(184)	(805)
Cumulative translation adjustment	—	—	6	(2)	457	(27)	434
Balance as of September 30, 2009	$ 7,511	$ (1,323)	$ 529	$ (109)	$ 3,770	$ (293)	$ 10,085

* CoaLogix includes regeneration, rejuvenation and on-site cleaning technologies as well as the Solucorp license.

** EIS includes software and customer relationships.

All intangible assets are being amortized over their estimated useful lives, whose weighted average lives were estimated to be ten years for CoaLogix, seven years for Naval Technologies and eighteen years for EIS. Amortization expense for each of the nine months ended September 30, 2008 and 2009 amounted to $560 and $805, respectively. Amortization expense with respect to intangible assets is estimated to be $1,161, $1,161, $1,113, $1,108 and $1,108 per year for each of the years ending September 30, 2010 through 2014.

Note 12: Stock Options and Warrants

(a) Acorn Stock Options

A summary of stock option activity for the nine months ended September 30, 2009 is as follows:

	Number of Options (in shares)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2008	1,876,500	$ 3.27		
Granted	379,500	$ 2.19		
Exercised	(2,500)	$ 0.91		
Forfeited or expired	(253,667)	$ 2.65		
Outstanding at September 30, 2009	1,999,833	$ 3.21	3.4 years	$ 4,581
Exercisable at September 30, 2009	1,553,164	$ 3.16	2.5 years	$ 3,646

The weighted average grant date fair value of the 379,500 stock options granted during the first nine months of 2009 was $1.74 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	70%
Expected term (years)	5.8 years
Risk free interest rate	2.14%
Expected dividend yield	None

(b) CoaLogix Stock Options

In April 2009, CoaLogix granted options (the "April 2009 Options") to purchase 81,445 of its common stock to senior management of CoaLogix under the CoaLogix Inc. 2008 Stock Option Plan (the "CoaLogix Plan"). The options were granted with an exercise price of $7.20 per share and are exercisable for a period of ten years. The options are subject to a double trigger vesting schedule. The April 2009 Options will vest over a four-year term with 25% vesting after one year and the balance vesting quarterly over the following three years. In addition, the maximum cumulative number of April 2009 Options that may vest at any applicable vesting date is limited based on the amount invested by the purchasers under the Purchase Agreement described in Note 5.

If and when all of the options in the CoaLogix Plan are exercised, the Company's holdings in CoaLogix would be diluted from 79.4% to approximately 68.9%.

CoaLogix valued the options using a Black Scholes model using the following variables:

Stock price*	$	7.20
Exercise price	$	7.20
Expected term of option in years	6.1 years	
Volatility**		65%
Risk-free interest rate		1.8%
Expected dividend yield	None	

* The stock price was determined based upon the valuation used in the Company's recent investment in CoaLogix (see Note 5).

** The calculated volatility for comparable companies for the expected term was used.

Based upon the above, it was determined that the options granted had a value of $4.33 per option.

A summary status of the CoaLogix Plan as of September 30, 2009, as well as changes during the nine months then ended, is presented below:

	2009	
	Number of Options (in shares)	Weighted Average Exercise Price
Outstanding at January 1, 2009	376,475	$ 5.05
Granted at fair value	81,445	7.20
Exercised	—	—
Forfeited	—	—
Outstanding at September 30, 2009	457,920	$ 5.43
Exercisable at September 30, 2009	128,678	$ 5.05

(c) Stock-based compensation expense

Total stock-based compensation expense included in the Company's statements of operations for the nine and three months ended September 30, 2008 and 2009, respectively, was:

	Nine months ended September 30,		Three months ended September 30,	
	2008	2009	2008	2009
Cost of sales	$ 122	$ 101	$ 65	$ 3
Research and development expense	—	76	—	36
Selling, general and administrative expenses	867	964	326	336
Share of losses in Paketeria	25	—	13	—
Total stock based compensation expense	$ 1,014	$ 1,141	$ 404	$ 375

(d) Warrants

A summary of stock warrants activity for the nine months ended September 30, 2009 is as follows:

	Number of Warrants (in shares)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2008	784,023	$ 4.06	3.1 years
Granted	—		
Exercised	(28,062)	$ 3.38	
Forfeited or expired	—		
Outstanding and exercisable at September 30, 2009	755,961	$ 4.08	2.3 years

Note 13: Share Repurchase Program

On October 6, 2008, the Board of Directors of the Company authorized a share repurchase program of up to 1,000,000 shares of its common stock. The share repurchase program is being implemented at management's discretion from time to time. During the period from January 1, 2009 to September 30, 2009, the Company repurchased 433,795 shares of its common stock at an average price of $2.55 per share. As at September 30, 2009, the Company repurchased a total of 497,710 shares of its common stock under the program.

Note 14: Research and Development Expenses, Net

In April 2009, following a technical audit, the Company's Coreworx subsidiary's claims for scientific and experimental development tax credits and Ontario innovation tax credits pertaining to its 2007 tax year totaling approximately CDN$826 ($710) net of contingency fees and interest (collectively "SR&ED Claims") were accepted by the Canada Revenue Agency and the Ontario Ministry of Revenue, respectively. During the second quarter of 2009, Coreworx received CDN$627 ($539) of the 2007 SRED Claim with the remaining CDN$199 ($186) expected to be received in the fourth quarter of 2009. Additionally, as a result of it passing the technical audit, Coreworx has also accrued CDN$400 ($373) with respect to similar SRED Claims pertaining to its 2008 tax year only to the extent that it is entitled to apply for refundable credits on qualifying expenditures up to August 13, 2008 (the date it was acquired by the Company). Tax credits resulting from qualifying expenditures after August 13, 2008 are applicable against income taxes otherwise payable by Coreworx.

It is the Company's policy that credits arising from qualifying scientific research and experimental development expenditures are netted against research and development expenses. Accordingly, all the credits ($1,016) were netted against research and development expenses in the second quarter of 2009.

Note 15: Warranty Provision

The following table summarizes the changes in accrued warranty liability from the period from December 31, 2008 to September 30, 2009:

		Gross Carrying Amount
Balance at December 31, 2008	$	256
Warranties issued and adjustment of provision		16
Warranty claims		—
Balance at September 30, 2009*	$	272

* $24 of the warranty provision is included in Other Current Liabilities and $248 in Other Liabilities at September 30, 2009.

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

Note 16: Fair Value Measurement

In February 2008, the FASB delayed the effective date of ASC Subtopic 820-10 (originally issued as SFAS No. 157, "Fair Value Measurements") for non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008, except for items that are recognized or disclosed at fair value in the financial statements on a

recurring basis. This provision was effective for the Company beginning on January 1, 2009. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements, because the Company did not have any non-financial assets or non-financial liabilities recognized or disclosed at fair value at the adoption date.

ASC Subtopic 820-10 defines fair value for financial reporting as the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value measurement of our financial assets utilized assumptions categorized as observable inputs under ASC Subtopic 820-10. Observable inputs are assumptions based on independent market data sources.

The following table sets forth information regarding the fair value measurement of our financial assets as of September 30, 2009:

	Level 1	Level 2	Total
Derivative assets	$ 22	$ —	$ 22
Total	$ 22	$ —	$ 22

Derivative assets that are classified in Level 1 consist of forward contracts for the purchase of NIS for which market prices are readily available. Unrealized gains or losses from forward contracts are recorded in Finance income (expense), net.

Note 17: Segment Information

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

- CoaLogix - SCR (Selective Catalytic Reduction) Catalyst and Management services conducted through the Company’s CoaLogix subsidiary which provides through its SCR-Tech, LLC subsidiary catalyst regeneration technologies and management services for selective catalytic reduction (SCR) systems used by coal-fired power plants to reduce nitrogen oxides (NOx) emissions.

- Naval and RT Solutions whose activities are focused on the following areas – sonar and acoustic related solutions for energy, defense and commercial markets and other real-time and embedded hardware & software development and production. Naval and RT Solutions activities are provided through the Company’s DSIT Solutions Ltd. subsidiary.

- Energy Infrastructure Software (EIS) services are provided through the Company’s Coreworx Inc. subsidiary which was acquired in August 2008. Coreworx provides integrated project collaboration and advanced document management solutions for the architecture, engineering and construction markets, particularly for large capital projects. As these activities were acquired in August 2008, there are no comparative results reported for these activities for the three or nine month periods ended September 30, 2008.

Other operations include various operations that do not meet the quantitative thresholds of ASC 280-10 (previously referred to as SFAS No. 131.)

	CoaLogix	Naval and RT Solutions	EIS	Other	Total
Nine months ended September 30, 2009:					
Revenues from external customers	$ 12,761	$ 5,541	$ 3,487	$ 932	$ 22,721
Intersegment revenues	—	5	—	—	5
Segment gross profit	4,169	2,368	2,888	305	9,730
Segment income (loss)	(295)	605	(1,115)	22	(783)
Depreciation and amortization expense	922	140	275	20	1,357
Stock compensation expense	378	2	171	—	551
Nine months ended September 30, 2008:					
Revenues from external customers	5,441	5,340	767	982	12,530
Intersegment revenues	—	70	—	—	70
Segment gross profit	868	1,749	510	200	3,327
Segment income (loss)	(1,772)	165	(310)	(106)	(2,023)
Depreciation and amortization expense	661	139	49	37	886
Stock compensation expense	122	—	—	—	122
Three months ended September 30, 2009:					
Revenues from external customers	2,824	1,905	1,385	349	6,463
Intersegment revenues	—	—	—	—	—
Segment gross profit	698	819	1,202	142	2,861
Segment income (loss)	(828)	192	(512)	43	(1,105)
Depreciation and amortization expense	309	47	102	6	464
Stock compensation expense	148	—	60	—	208
Three months ended September 30, 2008:					
Revenues from external customers	1,840	1,745	767	276	4,628
Intersegment revenues	—	54	—	—	54
Segment gross profit	(234)	568	510	53	897
Segment income (loss)	(1,361)	(24)	(310)	(64)	(1,759)
Depreciation and amortization expense	229	40	49	17	335
Stock compensation expense	65	—	—	—	65

Reconciliation of Segment Income (Loss) to Consolidated Net Loss

	Nine months ended September 30,		Three months ended September 30,	
	2008	2009	2008	2009
Total loss for reportable segments	$ (1,917)	$ (805)	$ (1,695)	$ (1,148)
Other operational segment income (loss)	(106)	22	(64)	43
Total operating income (loss)	(2,023)	(783)	(1,759)	(1,105)
Share of income (losses) in Paketeria	(1,560)	263	(899)	263
Share of losses in GridSense	(194)	(129)	(60)	—
Non-controlling interest	284	(48)	204	96
Impairments	(3,000)	(80)	(2,454)	—
Gain on sale of Comverge shares	8,861	1,403	3,079	176
Gain on early redemption of Debentures	1,259	—	—	—
Acquired in-process research and development	(551)	—	(551)	—
Gain on outside investment in Company's equity investments, net	7	—	7	—
Interest expense recorded with respect to the private placement of Debentures	(3,064)	—	—	—
Income tax benefit (expense)	(689)	72	(691)	72
Net loss of corporate headquarters and other unallocated costs*	(3,140)	(2,642)	(1,197)	(726)
Net loss attributable to Acorn Energy Inc	$ (3,810)	$ (1,944)	$ (4,321)	$ (1,224)

* Includes stock compensation expense of $867 and $591 for the nine month periods ending September 30, 2008 and 2009, respectively. Includes stock compensation expense of $326 and $168 for the three month periods ending September 30, 2008 and 2009, respectively.

Note 18: Subsequent Events

Subsequent events have been evaluated through November 12, 2009, the filing date of this Quarterly Report on Form 10Q, for disclosure and recognition.

(a) GridSense

On November 4, 2009, the Company entered into a binding letter of intent with Gridsense Pty. Ltd. ("GPL"), a company registered in Australia of which the Company owns approximately 31% of the outstanding shares, and the principal shareholders of GPL. According to the terms of the letter of intent the Company will acquire all of the shares of GPL not currently owned by the Company as well as the debt owed by GPL to certain of its shareholders (the "GPL debt"). Consideration for the acquisition of the GPL shares and the GPL debt is $4,384 multiplied by the percentage of the GPL shares not owned by the Company at closing, plus an earn-out to be determined based on the gross sales of GPL for 2010. The earn-out is capped at $2,435 multiplied by the percentage of the GPL shares not owned by the Company at closing. In connection with the Letter of Intent, the Company has made a bridge loan of $550 to GPL with an annual interest rate of 8% per annum and a term of 24 months. The bridge loan will be used by GPL for working capital and debt reduction purposes. The Company is in the process of conducting due diligence regarding this transaction and preparing the definitive purchase agreement. Closing is expected to occur in the first quarter of 2010.

(b) Exercise of options and warrants

During the period from October 1, 2009 to October 31, 2009, the Company issued 199,668 common shares as a result of option holders exercising options at an average exercise price of $1.10. As a result of the options exercised during that period, the Company received proceeds of $220.

During the period from October 1, 2009 to October 31, 2009, the Company issued 202,979 common shares as a result of warrant holders exercising warrants at an average exercise price of $4.39. As a result of the warrants exercised during that period, the Company received proceeds of $891.

(c) Call of warrants

On October 26, 2009, the Company exercised its right to call all outstanding and unexercised warrants to purchase its common stock that were issued to investors in a private placement of shares and warrants in 2006. Under the terms of the warrants, any warrants that remain outstanding and unexercised after the call date of November 24, 2009 shall be automatically cancelled and no longer exercisable.

The amount of the cash proceeds that the Company will receive will depend upon the number of warrants exercised. If all of the 184,262 presently outstanding called warrants are exercised, the Company will receive proceeds of approximately $512.

ACORN ENERGY, INC.
Management's Discussion and Analysis of
Financial Condition and Results of Operations

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

The following discussion includes statements that are forward-looking in nature. Whether such statements ultimately prove to be accurate depends upon a variety of factors that may affect our business and operations. Certain of these factors are discussed in this report and in our Annual Report on Form 10-K for the year ended December 31, 2008.

Recent Developments

CoaLogix Additional Facility in North Carolina

On September 4, 2009, CoaLogix's SCR-Tech subsidiary entered into a lease agreement to lease approximately 7.3 acres of land in Charlotte, North Carolina together with a building containing approximately 143,500 square feet of office and warehouse space. SCR-Tech entered into the lease in order to begin operating a second manufacturing, warehousing and research and development facility. The initial term of the lease is for seven years, and SCR-Tech may extend the lease for up to two extension terms of five years each. SCR-Tech is initially leasing 98,460 square feet through August 31, 2010, and will lease the balance of the 45,040 square feet on September 1, 2010. SCR-Tech has the right to elect to lease the balance of such square feet prior to September 1, 2010.

Under the terms of the lease, SCR-Tech will have free rent for the first nine months of lease of the 98,460 square feet of space, and will have free rent for the first six months of the lease of the 45,040 square feet of space. Once the rent-free periods have passed, SCR-Tech will begin making monthly payments of rent on the basis of $2.70 per square foot with the rental rate increasing at 3% per year. The rental rate for the extension terms shall be the prevailing base rental rate per square foot of rentable area available in the Charlotte, North Carolina market for comparable properties with a cap of 110% of the rental rate at the expiration of the preceding expiring term.

GridSense

On November 4, 2009, we entered into a binding letter of intent with Gridsense Pty. Ltd. ("GPL"), a company registered in Australia of which we own approximately 31% of the outstanding shares, and the principal shareholders of GPL. According to the terms of the letter of intent, we will acquire all of the shares of GPL not currently owned by us as well as the debt owed by GPL to certain of its shareholders (the "GPL debt"). Consideration for the acquisition of the GPL shares and the GPL debt is $4,384,000 multiplied by the percentage of the GPL shares not owned by the Company at closing, plus an earn-out to be determined based on the gross sales of GPL for 2010. The earn-out is capped at $2,435,000 multiplied by the percentage of the GPL shares not owned by us at closing. In connection with the letter of intent, we made a bridge loan of $550,000 to GPL with an annual interest rate of 8% per annum and a term of 24 months. The bridge loan will be used by GPL for working capital and debt reduction purposes. We are in the process of conducting due diligence regarding this transaction and preparing the definitive purchase agreement. Closing is expected to occur in the first quarter of 2010.

Call of Warrants

On October 26, 2009, we exercised our right to call all outstanding and unexercised warrants to purchase our common stock that were issued to investors in a private placement of shares and warrants in 2006. Under the terms of the warrants, any warrants that remain outstanding and unexercised after the call date of November 24, 2009 will be automatically cancelled and no longer exercisable. The amount of the cash proceeds that the Company will receive will depend upon the number of warrants exercised. If all of the 184,262 presently outstanding called warrants are exercised, we will receive proceeds of approximately $0.5 million.

Registration Statement

On September 16, 2009, The Securities and Exchange Commission declared effective a previously filed a registration statement on Form S-3 which registers the shelf for offer and sale from time to time the securities referenced in the registration statement in one or more offerings with an aggregate offering price of up to $12 million.

Overview and Trend Information

During the 2009 period included in this report, we had operations in three reportable segments: providing catalyst regeneration technologies and management services for SCR systems through our CoaLogix subsidiary; Naval and RT Solutions which is conducted through our DSIT subsidiary and Energy Infrastructure Software (“EIS”) services provided through our Coreworx subsidiary which was acquired in August 2008. Accordingly, our results presented in this report do not include meaningful comparative information for the three and nine month periods ending September 30, 2008 with respect to Coreworx’s results.

The following analysis should be read together with the segment information provided in Note 17 to the interim unaudited consolidated financial statements included in this quarterly report.

CoaLogix

Our CoaLogix segment reported significantly increased revenues, gross profit, gross margin and net income in 2009 as compared to 2008 (for both the three and nine months ended September 30).

Revenues of $12.8 million represent an increase of approximately $7.3 million or 135% in the first nine months of 2009 as compared to the first nine months of 2008. Third quarter 2009 revenues of $2.8 million also reflected an increase of approximately $1.0 million or 53% over second quarter 2008 revenues of $1.8 million. The increase in revenues was due to continuing penetration in the regeneration market combined with the ability to process more SCR modules facilitated by the completion of a plant expansion in the fourth quarter 2008. Third quarter 2009 revenues of $2.8 million decreased from second quarter 2009 revenues of $4.5 million primarily due to the re-scheduling of jobs that will be processed in the fourth quarter rather than the third quarter. CoaLogix was still able to manage its plant capacity by beginning to process items for its own inventory.

Gross profit in the first nine months of 2009 increased by approximately $3.3 million or 380% over first nine months of 2008 gross profit. In the third quarter of 2009, gross profit of $0.7 million represents an increase of $0.9 million over third quarter 2008 gross profit. The increase in gross profit was due to increased revenues noted above and increased gross margins.

CoaLogix’s gross margins increased to 33% in the first nine months of 2009 compared to 16% in the first nine months of 2008. Gross margins increased during the period due to increased efficiencies and additional throughput from the plant expansion in the fourth quarter of 2008.

At the end of the third quarter, SCR-Tech had a backlog of approximately $9.8 million which CoaLogix expects to realize over the next 2 years.

In April 2009, we entered into the Purchase Agreement with CoaLogix, EnerTech and certain members of CoaLogix's senior management pursuant to which Acorn and EnerTech each agreed to purchase from CoaLogix 781,111 shares of common stock for a purchase price of $5.6 million, 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 approximately $260,000. Proceeds of the sale of the common stock will be used by CoaLogix for plant expansion, technology development, legal expenses and computer software. Including the $1.8 million received by CoaLogix in September 2009, CoaLogix has received approximately $3.9 million of the total $11.5 million commitment by Acorn, EnerTech and management. A majority of the $2.2 million of expenditures to date has been for technology development and legal costs associated with pending legal actions to which CoaLogix is a party (see Part II – Other Information, Item 1. Legal Proceedings).

CoaLogix is currently engaged in reevaluating and testing the economic viability of its MetalliFix technology which is used for the removal of heavy metals, such as mercury and selenium, from coal-fired power plants. If, as a result of the testing, the MetalliFix technology is found not to be economically viable, CoaLogix may record an impairment of all or a portion of its MetalliFix related assets. Such impairment, if recorded, could have a material adverse effect on our results of operations and financial condition. Such assets include the license for the technology as well as chemical inventories and certain prepaid assets. The current book value of those assets is approximately $2.4 million. Under the license agreement for the acquisition of the technology from Solucorp Industries Ltd. (Solucorp), CoaLogix has the right to terminate the license agreement in the event Solucorp cannot deliver to CoaLogix the MetalliFix product for the prices set forth in the license agreement, and upon such termination Solucorp would be obligated to refund to CoaLogix a pro rata portion of the $2.0 million license fee it paid Solucorp. Solucorp has agreed that in the event CoaLogix so terminates the license agreement the amount of the license fee to be refunded to CoaLogix would be $1.8 million. In the event of such termination of the license agreement, CoaLogix would seek to return to Solucorp the chemicals purchased from Solucorp and obtain a refund for the amounts paid. CoaLogix is uncertain as to whether Solucorp would be able to satisfy these refund obligations.

As noted in Recent Developments, in September 2009, CoaLogix's SCR-Tech subsidiary entered a lease agreement to lease approximately 7.3 acres of land in Charlotte, North Carolina together with a building containing approximately 143,500 square feet in order to begin operating a second manufacturing, warehousing and research and development facility. CoaLogix expects the new facility to begin operations during the first half of next year and will be able to service its continued growth while providing additional capacity for new and existing customers. CoaLogix will make a significant capital investment in the expansion from funds received under the Purchase Agreement. In addition, SCR-Tech will receive both state and local government incentives. CoaLogix's decision for SCR-Tech to lease additional space is in response to the increased demand for its services and products.

Naval & RT Solutions

Our Naval & RT Solutions segment in DSIT reported slightly increased revenues but significantly increased gross profit, gross margin and net income in the first nine months of 2009 as compared to the first nine months of 2008.

First nine months 2009 revenues of $5.5 million were slightly higher ($0.2 million) as compared to the first nine months of 2008 revenues of $5.