Zacks Equity Research

November 11, 2010
Steven Ralston, CFA

www.zacks.com 111 North Canal Street, Chicago, IL 60606

Acorn Energy, Inc. (ACFN-NASDAQ)

ACFN: Zacks Co. Report – OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	08/29/2010
Current Price (11/10/10)	$3.98
Six- Month Target Price	**$6.00**

OUTLOOK

Acorn reported third quarter results with strong revenue growth at four of Acorn's five companies. Results at DSIT and CoaLogix were particularly impressive, despite start-up costs at the new Steele Creek facility. Disappointing results at Coreworx motivated management to divest the major portion of that company to operating management. John Moore is demonstrating financial discipline in the decision to curtail the funding of Coreworx. Despite lowering our 2010 estimate, we are raising 2011 estimate from a loss of $0.50 to a loss of $0.45. We maintain Outperform rating and the $6 price target.

SUMMARY DATA

52-Week High	**$8.06**
52-Week Low	**$3.85**
One-Year Return (%)	**-48.77**
Beta	**0.94**
Average Daily Volume (shrs.)	**76,892**
Shares Outstanding (million)	**16**
Market Capitalization ($mil.)	**$62**
Short Interest Ratio (days)	**2.42**
Institutional Ownership (%)	**20**
Insider Ownership (%)	**14**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**34.4**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2010 Estimate	**N/M**
P/E using 2011 Estimate	**N/M**
Zacks Rank	**4**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Elect. Prods. – Misc.**
Zacks Rank in Industry	**24 of 24**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2008	4.3 A	3.6 A	4.6 A	8.2 A	20.7 A
2009	8.5 A	7.8 A	6.5 A	8.6 A	31.3 A
2010	7.9 A	9.1 A	10.6 A	13.7 E	41.3 E
2011	13.3 E	13.8 E	14.2 E	14.7 E	56.0 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2008	-$0.21 A	-$0.14 A	-$0.50 A	-$0.35 A	-$1.20 A
2009	-$0.13 A	-$0.04 A	-$0.15 A	-$0.33 A	-$0.65 A
2010	-$0.25 A	-$0.21 A	-$0.29 A	-$0.06 E	-$0.80 E
2011	-$0.15 E	-$0.13 E	-$0.10 E	-$0.07 E	-$0.45 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/M**

Quarterly numbers may not equal annual total due to rounding.

© Copyright 2010, Zacks Investment Research. All Rights Reserved.

KEY POINTS

- Revenue growth was greater than expectations at four of Acorn's five companies (CoaLogix, DSIT, GridSense and US Sensor).
- Management is divesting Acorn's problem child, Coreworx, through a management buyout.
- In the fourth quarter, Acorn should fully benefit from the increased capacity from CoaLogix's Steele Creek facility without the impediments of start-up costs, and DSIT is expected to continue to grow both top-line revenue and net income due to new orders and a rising backlog.
- Consult the initiation report dated September 7, 2010 for full background information.

OVERVIEW

Based in Montchanin, Delaware, Acorn Energy (ACFN) is a holding company of five operating companies, which share the common theme of applying technology to improve the productivity and security of existing infrastructure within various energy industries. Currently, all five operating companies are consolidated with **CoaLogix, Inc.** being 72% owned by Acorn Energy and **DSIT Solutions Ltd**., being 84% owned. **Coreworx, Inc.** and **GridSense Pty Ltd**. are wholly-owned. Acorn Energy is increasing its ownership of **US Sensor Systems** with its options to increase ownership to 84% (on a fully diluted basis) by May 2011; currently, ownership is 57.6% (50.5% fully diluted). In 2009, when only CoaLogix, DSIT, and Coreworx were consolidated, CoaLogix accounted for 58% of revenues, DSIT Solutions Ltd. 29%, and Coreworx 13%.

Acorn is focused on addressing the challenges of the energy sector, from improving the efficiency and environmental impact of the energy production to dealing with security risks related to the ownership of large energy assets. There are substantial business opportunities in repairing, monitoring, updating, expanding, and protecting the existing global energy infrastructure. Acorn's strategy is to take controlling positions (at significant discount to previously invested capital) in viable companies that are and will be benefiting from these opportunities. In 2009, 70% of consolidated revenues were generated in the U.S. & Canada, 18% in Israel, and 11% in Asia.

RECENT NEWS

On November 11, 2010, Acorn Energy reported third quarter results for the three-month period ending September 30, 2010. Revenues increased 63.8% to $10.6 million from $6.46 million, driven by increased capacity at the new facility at Steele Creek Road in Charlotte, NC, which came on-line in August and DSIT's continued successful penetration into the security market of exposed waterfront commercial installations. Revenue growth was greater than expectations at four of the five companies (CoaLogix, DSIT, GridSense and US Sensor). Management decided to divest Acorn's problem child, Coreworx, through a management buyout. Revenues at Coreworx declined 21.2% and were below expectations. Total gross profit increased 27.7% to $3.65 million from $2.86 million in the comparable-period last year. The gross profit margin decreased 976 basis points (bps) to 34.5% from 44.3% in the comparable year-ago quarter, primarily due to start-up costs Steele Creek facility causing margin compression at CoaLogix (16.7% versus 24.7%). Acorn reported a loss of $4.57 million or $0.29 per diluted share.

Management is demonstrating financial discipline by divesting much of its ownership of Coreworx and eliminating the cash drain of funding Coreworx further. The management buyout is expected to be effective on or before December 15, 2010 and result in non-cash impairment charge (write-off of goodwill and other intangible assets) of approximately $9.4 million in the fourth quarter. Acorn will continue to own a 10% equity interest in Coreworx, along with a 10% warrant interest, a $4 million secured note in

Coreworx, and a 4% sales royalty until Acorn's investment is returned ($20 million). Therefore, Acorn will retain a portion of Coreworx's ultimate success without any further financial commitment.

Revenue at CoaLogix increased 94.0% to $5.48 million from $2.82 million in third quarter of 2009. Gross profit increased 31.3% to $916 thousand from $698 thousand in the comparable-period last year. The gross profit margin decreased 799 basis points (bps) to 18.7% from 24.7% in the comparable year-ago quarter due to increased overhead costs stemming from new hires associated with the opening of the Steele Creek. CoaLogix received new orders of $5.9 million during the third quarter, and at the end of September 2010, CoaLogix's backlog was $9.3 million.

CoaLogix is pursuing significant opportunities in China. With approximately 80% of China's electrical energy being generated by coal-fired plants, China's pollution problems are immense. China's 12th Five-Year Plan for Energy (2010-2015), despite seeking additional nuclear and wind-power energy sources, will maintain China's coal-dominated electric consumption structure. CoaLogix has opened an office in China and is pursuing the catalyst regeneration market, though the required political and financial capital required most likely will require a collaborative partner.

Revenue at DSIT increased 48.1% to $3.19 million from $2.15 million in the comparable-period last year driven by the AquaShield DDS and a major Asian country's order for underwater sonar systems. Gross profit increased 46.3% to $1.37 million from $0.939 million in third quarter of 2009, but the gross profit margin decreased 51 basis points (bps) to 43.1% from 43.6%. DSIT is Acorn's only profitable company, generating positive net income of $1.2 million during the first nine months of 2010. At the end of third quarter, DSIT's backlog was $8.4 million, up 11% from $7.6 million at year-end 2009.

During the fourth quarter, Acorn should fully benefit from the increased capacity from CoaLogix's Steele Creek facility without the impediments of start-up costs. Therefore, CoaLogix's gross margin is expected to recover to 38% in the fourth quarter. DSIT is expected to continue to grow both top-line revenue and net income due to new orders and a rising backlog.

On August 25, 2010, CoaLogix announced five-year contract that establishes provisions for SCR catalyst regeneration for American Electric Power's (AEP: NYSE) fleet of units equipped with selective catalytic reduction (SCR) systems. The long-term agreement will enable AEP to optimize its catalyst management program by including regeneration in its catalyst management options. SCR-Tech has already regenerated over 340 SCR catalyst modules for use at two of AEP's coal-fired power plants.

On August 11, 2010, CoaLogix and Cormetech (a joint equity company of Corning and Mitsubishi Heavy Industries) announced the signing of an agreement that combines the technical, service and marketing experience of both companies to provide long-term SCR-based emissions reduction solutions for fossil-fueled power plants. The agreement was effective immediately.

On May 24, 2010, GridSense announced the acquisition of On-Line Monitoring for the assumption of debt.

On May 12, 2010, Acorn began consolidating the results of GridSense, after acquiring the remaining outstanding shares of GridSense.

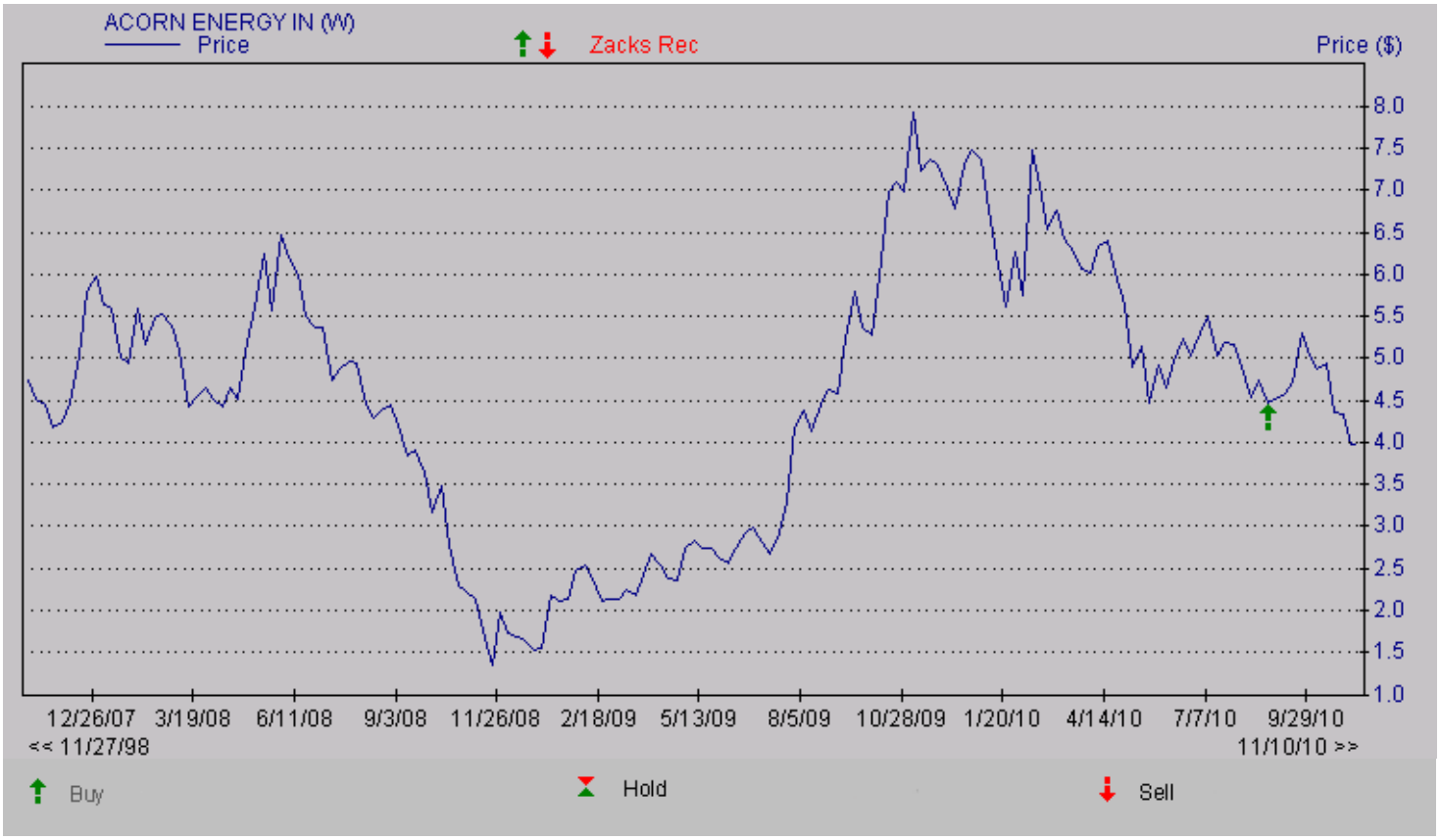
On April 30, 2010, Coreworx completed the acquisition of Calgary-based Decision Dynamics Technology in consideration for the issuance of 1,000,000 shares of Acorn Energy. Decision Dynamics will add real-time cost control modules to Coreworx's software platform application and give project managers a complete, real-time financial view of payments as they move through the project.

On April 12, 2010, Acorn Energy announced a change of independent accountants.

On February 23, 2010, Acorn began consolidating the results of U.S. Sensor Systems.

Acorn Energy Earnings Model													
		YEARS ENDING 12/31	Q1	Q2	Q3	Q4	2009	Q1	Q2	Q3	Q4 E	2010 E	2011 E
INCOME STATEMENT (000 except EPS)													
CoaLogix		revenues	5,390	4,547	2,824	5,338	**18,099**	4,478	4,855	5,479	8,000	**22,812**	**36,800**
DSIT		revenues	1,966	2,036	2,154	2,651	**8,807**	2,507	2,751	3,189	3,925	**12,372**	**15,000**
Corew orx		revenues	1,027	1,075	1,385	511	**3,999**	770	897	1,091	800	**3,558**	**0**
GridSense		revenues					**0**	0	517	671	800	**1,988**	**3,500**
US Sensor		revenues					**0**	0	104	157	185	**446**	**750**
Other		revenues	95	122	100	95	**412**	99	0	0	0	**99**	**0**
TOTAL REVENUES			8,478	7,780	6,463	8,596	**31,317**	7,854	9,124	10,587	13,710	**41,275**	**56,050**
	CoaLogix	cost of goods sold	3,535	2,931	2,126	3,211	**11,803**	2,546	3,000	4,563	4,960	**15,069**	**21,878**
	DSIT	cost of goods sold	1,219	1,132	1,215	1,380	**4,946**	1,342	1,475	1,815	1,330	**5,962**	**7,012**
	Corew orx	cost of goods sold	271	145	183	99	**698**	176	204	151	111	**642**	**0**
	GridSense	cost of goods sold					**0**	0	191	321	383	**895**	**1,528**
	US Sensor	cost of goods sold					**0**	0	83	84	86	**253**	**390**
	Other	cost of goods sold	74	82	78	84	**318**	82	0	0	0	**82**	**0**
TOTAL COST OF GOODS SOLD			5,099	4,289	3,602	4,774	**17,765**	4,146	4,953	6,934	6,869	**22,902**	**30,808**
Gross Profit			3,379	3,491	2,861	3,822	13,552	3,708	4,171	3,653	6,840	**18,372**	**25,242**
TOTAL SG&A			4,108	4,629	4,565	5,215	**18,517**	6,321	7,565	7,466	7,000	**28,352**	**30,828**
		R&D expense	(276)	624	(424)	(493)	**(569)**	(670)	(872)	(886)	(500)	**(2,928)**	**(1,500)**
		In process R&D Corew orx					**0**						
		Dividends from EnerTech					**0**	135				**135**	**0**
		Impairments	(70)		0	(2,611)	**(2,692)**						
OPERATING INCOME			(1,075)	(514)	(2,128)	(4,497)	**(8,226)**	(3,148)	(4,266)	(4,699)	(660)	**(12,773)**	**(7,085)**
		Interest expense	(169)	85	297	(444)	**(231)**	50	(355)	131	(263)	**(437)**	**(350)**
		Gain on early redemption					**0**						
		Gain on Sale Comverge	417	810	176	0	**1,403**						
		Gain (loss) private placement					**0**						
		Gain on investment GridSense					**0**		1,327			**1,327**	
Pretax income			(827)	381	(1,655)	(4,941)	**(7,054)**	(3,098)	(3,294)	(4,568)	(922)	**(11,882)**	**(7,435)**
		Taxes	0	0	72	672	**744**	(75)	(123)	(372)	(100)	**(670)**	**0**
Net Income after taxes			(827)	381	(1,583)	(4,269)	**(6,310)**	(3,173)	(3,417)	(4,940)	(1,022)	**(12,552)**	**(7,435)**
		Equity income (loss) Paketeria	0	0	263	0	**263**	0	0	0	0		
		Equity income (loss) GridSense	(129)	0	0	0	**(129)**	0	0	0	0		
		Minority interest	(107)	(37)	96	468	**420**	0	265	373	0	**638**	
REPORTED NET INCOME			(1,063)	344	(1,224)	(3,801)	**(5,745)**	(3,173)	(3,152)	(4,567)	(1,022)	**(11,914)**	**(7,435)**
		Weighted Avg. Shares Out. Diluted	11,535	11,553	11,186	11,592	**11,445**	12,498	15,161	15,721	16,200	**14,895**	**16,500**
REPORTED NET INCOME			(0.09)	0.03	(0.11)	(0.33)	**(0.50)**	(0.25)	(0.21)	(0.29)	(0.06)	**(0.80)**	**(0.45)**
	NRI	ex-Comverge	(1,480)	(466)	(1,400)								
		Paketeria			(263)								
		Zacks Dilluted Earnings before NRI	(1,480)	(466)	(1,663)	(3,801)	**(7,411)**	(3,173)	(3,152)	(4,567)	(1,022)	**(11,914)**	**(7,435)**
Zacks Diluted EPS before NRI			-0.13	-0.04	-0.15	(0.33)	**(0.65)**	(0.25)	(0.21)	(0.29)	(0.06)	**(0.80)**	**(0.45)**
		YEARS ENDING 12/31	Q1	Q2	Q3	Q4	2009	Q1	Q2	Q3	Q4 E	2010 E	2011 E
Gross margin			39.9%	44.9%	44.3%	44.5%	43.3%	47.2%	45.7%	34.5%	49.9%	44.5%	45.0%
SGA % of revenues			48.5%	59.5%	70.6%	60.7%	**59.1%**	80.5%	82.9%	70.5%	51.1%	**68.7%**	**55.0%**
R&D % of revenues			3.3%	-8.0%	6.6%	5.7%	**1.8%**	8.5%	9.6%	8.4%	3.6%	**7.1%**	**2.7%**
Gross margins		CoaLogix	34.4%	35.5%	24.7%	39.9%	**34.8%**	43.1%	38.2%	16.7%	38.0%	**33.9%**	**40.5%**
		DSIT	38.0%	44.4%	43.6%	47.9%	**43.8%**	46.5%	46.4%	43.1%	66.1%	**51.8%**	**53.3%**
		Corew orx	73.6%	86.5%	86.8%	80.6%	**82.5%**	77.1%	77.3%	86.2%	86.2%	**82.0%**	
		GridSense							63.1%	52.2%	52.2%	**55.0%**	**56.3%**
		US Sensor							20.2%	46.5%	53.5%	**43.3%**	**48.0%**

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The analysts contributing to this report do not hold any shares of ACFN. Zacks EPS and revenue forecasts are not consensus forecasts. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. Zacks certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. Zacks uses the following rating system for the securities it covers. **Outperform**- Zacks expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. **Neutral**- Zacks expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. **Underperform**- Zacks expects the company will under perform the broader U.S. Equity market over the next one to two quarters. The current distribution of Zacks Ratings is as follows on the 1011 companies covered: Outperform- 15.6%, Neutral- 78.6%, Underperform – 5.2%. Data is as of midnight on the business day immediately prior to this publication.