

Acorn Energy
Conference Call
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CORPORATE PARTICIPANTS

Michael Barth – *Chief Financial Officer*

Jan Loeb – *Chief Executive*

Walter Czarnecki – *President and Chief Executive Officer OmniMetrix*

PRESENTATION

Operator

Good afternoon and welcome to the Acorn Energy Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Michael Barth, CFO. Please go ahead, sir.

Michael Barth

Thank you for joining us on today's call. With me are Jan Loeb, Acorn's recently appointed CEO; and Walter Czarnecki, President and CEO of OmniMetrix. Unfortunately, Benny Sela, President and CEO of our DSIT solutions subsidiary, is unable to join us on today's call.

Before we begin, please remember that many of the statements made on today's prepared remarks, or in our responses to your questions, are forward-looking. These statements are subject to various risks and uncertainties. In particular, the performance of our operating companies in 2016 and future years is subject to various risks and uncertainties, including risks associated with executing Acorn's new operating strategy, meeting performance milestones, risks associated with conducting business with government customers including possible cost overruns on fixed-price projects, and our success in driving growth in our core business. Such forward-looking statements are made based on management's belief as well as assumptions made by information currently available to management pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.

There is no assurance that Acorn or its operating companies will be able to achieve its goals to growth in 2016 and future years. The company also undertakes no obligation to disclose any revisions to these forward-looking statements to reflect events or circumstances after the date made. A complete discussion of the risks and uncertainties which may affect Acorn Energy and our subsidiaries, is included in the risk factors in the company's Form 10-K filed by the company with the Securities and Exchange Commission.

Jan?

I'm sorry, with that, I'd like to hand the call over to Jan Loeb. As you know, Acorn's board appointed Jan as CEO of the company in January of this year, following his appointment to the board in August of 2015. Jan played an important role in developing the partnering strategies for DSIT and structuring the sale of an equity stake at close today. It was Jan's firm, Lead Tide Capital Partners, that provided critical debt financing to Acorn that temporarily solved our near-term cash needs in August 2015. Jan brings decades of experience as a financial analyst, portfolio manager, investor, and business owner which provide him with a deep understanding of the critical elements required to create value in public equity. He also has substantial experience as an advisor or director of public companies and has been successful in helping

undervalued companies achieve their true potential. As demonstrated by today's news, we are confident that under Jan's leadership, Acorn will make solid strides in creating shareholder value from proven management of our portfolio and business assets.

With that, I'd like to introduce Acorn's CEO, Jan Loeb.

Jan Loeb

Thank you, Michael, and thank you, all, for joining today's call on such short notice. And, unlike the political debates we continue to endure, I'll keep my introductory remarks fairly brief and direct so that we can move quickly and directly into the Q&A portion of today's call.

As CEO of Acorn, I view my mission and responsibility should be focused on three principle goals: one, to shore up Acorn's financial position to de-risk the business and provide working capital to support prudent growth plans; two, to rationalize our disparate operations and turn around the company's disappointing operating performance; and three, as Acorn is a publicly traded company, to focus on initiatives with the greatest potential to create value for Acorn's shareholders. These are achievable goals and with the announcements today, we have taken important steps forward in realizing the inherent value we see in this company. Now, let me briefly review today's news.

Today, we completed the previously announced sale of nearly half of our majority interest in the DSIT solutions, Sonar and Underwater Acoustic's business to Israel-based Rafael Advanced Defense Systems. While this transaction provided much needed capital to Acorn, we believe the partnership we have forged with Rafael is a more exciting and promising event for Acorn going forward.

As DSIT has grown, we came to recognize the value of a strong partner with the size, resources, and scope of Rafael's capabilities. We believe this partnership will accelerate DSIT's growth by leveraging Rafael's technological capabilities and reputation as well as its impressive global sales reach in support of DSIT's industry leading sonar technology and its fiber optic based sensing.

I'll leave it to the press release to provide the full transaction details, but at a high level, Acorn has received gross proceeds of \$4.9 million before escrow fees and taxes. We have retained a 41.2% interest in DSIT that we believe will become increasingly valuable with the support of Rafael and its 50% interest in DSIT.

Proceeds of the sale will be used to pay off approximately \$2.7 million in short-term debt and to address certain age payables, while also providing capital to support significant growth initiatives we're developing for our core OmniMetrix business. OmniMetrix is a cutting edge provider of machine-to-machine internet of things, wireless remote monitoring and control for generator, pipeline, and industrial assets.

Remote monitoring of high value assets is a great business. It is scalable, applicable to a range of industries and processes, it provides substantial value to the customer, and delivers solid margins and recurring revenue streams for the provider. OmniMetrix has developed a very solid product, reputation, and service offering, and we believe it is well within the resources and

scope of Acorn to support its rapid growth, both organically and via acquisition. The scope of potential applications along with the business's recurring revenue model and attractive gross profit margins, provide a very attractive business platform that we believe can grow revenue at an annual rate of at least 25% for the next few years.

We also announced today that we have initiated the liquidation of our GridSense subsidiary. While it has a great team and proven products that provide substantial value to the utility industry, it simply does not have the scale or resources to be financially viable on a standalone basis. Part of that problem stems from the nature of the utility industry which operates on a multiyear cycle and has very long sale cycles. It is our hope and strong motivation that we will be able to find suitable homes for the company's personnel, products, and intellectual property within a much larger entity. But at this point, we are unable to forecast how the process will unfold.

This decision to liquidate the business was made after a thorough review of all possible alternatives and attempts to turn around this business. With no preferable option, the painful decision to cease operations and liquidate the business was the most immediate path to stem a significant and persistent cash strain on Acorn. Reflecting this decision, GridSense will be reported as a discontinued operation starting in our Q1 results which we expect to be released on or about May 16th.

In summary, having partnered DSIT with a far stronger and larger player in the defense industry, having harvested some capital in an equity sale to shore up our financial position, and to invest in our core monitoring business and having put in place a process to eliminate the significant operating losses and negative cash flow of one of our businesses, we believe we have put Acorn on a far stronger path for growth and value creation.

I'll hand the call back to our CFO Michael Barth to provide a bit more color on the financial and balance sheet implications to Acorn from both transactions. Michael?

Michael Barth

Thanks, Jan. The proceeds from the DSIT transaction will enable Acorn to retire all \$2.7 million of its short-term debt and strongly de-lever the company. In addition, Acorn has the potential to receive in excess of \$800,000 representing its prorated share of an earnout over the next three years from the sale of our DSIT equity stake. In addition, we've deposited approximately \$580,000 of additional proceeds to satisfy the escrow requirements in this sale. We will be able to access those funds, net of any disbursements, in October 2017.

Lastly, Acorn has approximately \$60 million of net operating loss carry forward which can be used to offset future federal income taxes.

Acorn has an attractive portfolio of business assets that we believe in the aggregate are worth substantially more than our prevailing market valuations. Our goal is to help the company realize this potential and we realize that today's actions are significant steps in the right direction; however, we are not finished. There are still a number of things we plan to do, to streamline the business and to develop growth opportunities. We've taken some significant cost reductions already, including significant cuts in our directors' fees and we will be making other

moves on overall compensation and other operating expenses as we go forward.

And with that, operator, let's open the call for investor questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

Once again, it is star then one to ask a question. And our first will come from Michael Rogers of Benning Scattergood.

Michael Rogers

Good afternoon, gentlemen. We have a little net proceeds left over from the sale of our DSIT. With that money going into, I hope, our bank account, reducing our short-term debt, may we expect to see some earnings per share in calendar 2016?

Jan Loeb

Michael, this is Jan Loeb. It's just too early to tell what the earnings might be for 2016. We will have a number of onetime items as it relates to GridSense, as relates to the sale of DSIT, so it's just too early to really ascertain what our earnings per share might or might not be for 2016.

Michael Rogers

Two other quick questions. Do we have a for sale sign on any of our other assets at this time?

Jan Loeb

We do not.

Michael Rogers

And last but not least, if anyone, a larger corporation, who sees what you have and realizes the future value of it, may be interested in buying you out today where the stock is trading at a very depressed price, at just pick a number, if somebody wanted to pay you \$5 a share for your stock, would you sell the stock there?

Jan Loeb

I don't think that that's a good—we don't know what a big corporation would be, but I think, realistically, today, with the stock trading at around \$0.20 to say that somebody's would pay us \$5, I don't think that that's a realistic number. But, as the CEO of the company and working on behalf of the shareholders, I'll look at anything that makes sense, and I think one can see from the announcement we made today, is we're willing to make hard decisions if we think that's the right move for our shareholders.

Michael Rogers

Thank you very much. That's very helpful. I appreciate the job you're doing.

Jan Loeb

Thank you very much.

Operator

And our next question will come from Scott Taylor of Sigma Cubed.

Scott Taylor

Hi there. Thank you very much for the presentation. I just have a couple quick questions to build upon the previous statements.

So, first off, I'm really happy to see that you've retired the debt; that was sort of a major concern. Did you anticipate having positive cash flow from either Omni or the other projects going forward this year or are you expecting you'll have to raise more equity to be able to carry these things forward so that they've got a positive cash flow?

Jan Loeb

Again, it's hard for me to say—in the case of OmniMetrix, I would certainly hope that for 2016 that they will be cash flow positive. One of the items that we have to always balance is the potential growth rate of the company versus near-term cash flow. If we think that there are certain investments that we need to make to better position the company for future growth, we won't hesitate to make them if we think that's the right return on capital for us to do.

Again, it really depends. This is a new situation, meaning we're cleaning up what's happened in the past and building a path forward. Exactly how that's going to transpire, it's very hard to say at this point. But, it would be my hope that OmniMetrix will be cash flow positive this year. But, again, we need to weigh it versus growth opportunities.

Scott Taylor

Okay, thank you. And then on DSIT, are you guys having success building your pipeline? Because I noticed that it seemed to be building pretty well from what was being disclosed over the past year. Is that looking positive for this year for more bookings and more pipelines to get a higher backlog and, ultimately, hopefully, get more cash flow from that subsidiary, as well?

Jan Loeb

I would say that in that business, what sparked a strong growth in our backlog in 2015 was a one very large contract.

Scott Taylor

Okay.

Jan Loeb

And we are talking to numerous customers about business, and these contracts do come in large size when they come and sometimes takes quite a while to actually win it. These are usually a foreign government's navies or where there's an RFP and you have to technically win it based on your technology and your price, etc., so we're constantly bidding. The team at DSIT is excellent, and they're constantly bidding for products, product sales. As of today, the backlog

has been going down because we've been shipping end product to our customers. But I would anticipate that at some point in time when we win some contracts that you'll see growth in our backlog.

Scott Taylor

What would you say that total addressable market is for that product line from DSIT right now, and is that market growing?

Jan Loeb

I do not know what the total size of the market potential is. Michael might be closer to the situation and certainly can chime in, if he had a sense. But I certainly believe that in different areas of the world, there is more aggression, especially as it relates to oceans and seas and ports, that I believe our products are very well positioned for growth.

Scott Taylor

Okay, thank you very much. I really appreciate it. Good work, guys.

Jan Loeb

Thank you, Scott.

Operator

Again, if you would like to ask a question, please press star then one at this time. And our next question will come from Alan Gelband of Gelband & Company.

Alan Gelband

Hi, Jan. Listen, congratulations to you and your team and John Moore before you for getting this deal done. I know it's been very difficult.

My question seems a little counterintuitive, but I think with the valuation on the business at \$6 million now and very little debt, the real value could be as high as maybe \$12 million to \$18 million, I think, doing a sum of the parts. How about the idea of buying back some stock now that it's depressed? Now, I'm not talking about a lot, but like a million shares or two million shares which will show that you're kind of aligned with the current shareholders—the company is.

Jan Loeb

I would say, in general I am a fan of share repurchases at below intrinsic value. In this situation, the company just got the money, and the company has been capital starved for some period of time. It's no secret, as Michael said at the beginning of the call, we loaned the company \$2 million. I think we have enough very good growth initiatives on our plate that that would most probably would be the best and highest use for our capital in the near-term.

Also recognize that we have \$60 million of NOLs and so, therefore, our cash flow—once our profitability turns positive, we get a much bigger benefit since our taxes are sheltered. So, I think in the near-term, that's not something that is going to happen.

As it relates to showing our belief in the company, all I can tell you is that we are large

shareholders in the company, management is a large shareholder in the company, and we certainly agree with you that we think that the current price doesn't totally recognize what the value of our assets are, but we need to execute and we need to prove that to the street in order for people to begin to recognize that.

Alan Gelband

Okay, I can understand. Obviously, you just got the money, and you're under a lot of pressure. I think it's an analysis that's worth doing. And I agree that, you know obviously, with the taxless carry forward, you could really build value, but at some point, right now, I think, in my opinion, I think the stock is phenomenally undervalued, and I think that every dollar of share that you buy back you're increasing the net worth by two additional dollars. So, that was the reasoning behind it.

I know you're aligned with the company, absolutely. I just think that they should also be considered at some time when stocks get really depressed, like this one is.

Jan Loeb

Okay. Thank you, Alan.

Alan Gelband

You're welcome.

Operator

And the next question comes from Neftoli Meyer; please go ahead.

Neftoli Meyer

Hi, Jan, congratulations.

Jan Loeb

Thank you very much.

Neftoli Meyer

A couple questions. When you say growth opportunities, you're talking about OmniMetrix or also DSIT?

Jan Loeb

Both of them have growth opportunities, but in terms of capital—

Neftoli Meyer

Yes, that was the question.

Jan Loeb

In terms of capital deployment, I'm talking OmniMetrix.

Neftoli Meyer

Okay. And in terms of marketing at DSIT, at this point, is Rafael going to be actively involved in that?

Jan Loeb

Yes. Again, we just closed and prior to closing, you're not allowed to have substantive conversations with them. One of the things we needed was getting antitrust approval from the Israeli government, but it is our anticipation that now that the deal is closed, that the two companies will be working together and there's a significant amount of synergies between the two companies, not only in sales, but in other areas as well that we hope to exploit.

Neftoli Meyer

Okay. One more question regarding DSIT. Do you have any short or medium-term plans to try to monetize the rest of your stake?

Jan Loeb

We have no short-term plans as it relates to DSIT, but we're open and I would imagine that after this deal with Rafael becomes well known, it wouldn't surprise me if people approached us about it. But, we'll see. But right now, there is no immediate plan.

Neftoli Meyer

Okay. And with respect to GridSense, so you've shut down the operations or you will be slowly shutting them down or—?

Jan Loeb

The employees have been furloughed, so there is actually no work going on at GridSense today.

Neftoli Meyer

Okay. And are you marketing GridSense yourselves, are you retaining someone to try to market it?

Jan Loeb

We have people who have approached us and are interested—I don't want to say interested, but are potentially interested in purchasing the assets of GridSense, and we'll see what happens. Again, I don't know, and I haven't—I don't know what their interest level is. I don't know, in terms of dollars, what they're thinking. But a number of companies have approached us, and we'll see what happens with those assets. We believe that they're valuable assets, but we'll see.

Neftoli Meyer

Okay. Anyway, congratulations again.

Jan Loeb

Thank you.

Operator

And once again, if you'd like to ask a question, please press star then one. And showing no additional questions, I would like to turn the conference back over to—I apologize, we do have another question now, and that comes from Joel Scarlar.

Joel Scalar

Hi, Jan. Congratulations on your new responsibilities.

Jan Loeb

Thank you, Joel.

Joel Scalar

Can you give us some color on OmniMetrix business opportunities? There were some things that were fermenting last year that I wonder still active around deals with military bases and things like that? But, yes, I think it would be good if you could speak a little bit to—I think, from my understanding, there's two big opportunities. One has to do with the monitoring of—I'm sorry, cathodic protection type of pipelines and things like that, and then there's generator monitoring and just wondering, once again, if you could give a little bit of color around the opportunities in both markets. Thank you.

Jan Loeb

Okay. Again, I have Walter Czarnecki, who's the President and CEO of OmniMetrix on the line, and so I'm going to ask him to respond because he certainly lives this business. I would just say, just an overarching comment, and that is we are constantly pursuing interesting opportunities in that business because we're a well-positioned company. So, things come, things go, but rest assured, we are constantly looking at interesting opportunities in that business.

Walter, if you'd like to answer Joel specifically and then maybe even spend a couple of minutes on OmniMetrix since that is a core business for Acorn.

Walter Czarnecki

Sure. Thanks, Jan, and thanks, Joel, for the question. With respect to revenue, our revenue continues to grow both on the power generation division and the pipeline monitoring division. With respect to the pipeline monitoring division, we've secured new customers in 2015, we've secured new customers in 2016. We're seeing that growth both in the primary area where our product has been which is monitoring corrosion protection systems on pipelines, but we're also seeing other applications where that is relevant to us. So essentially think about any critical asset where steel is touching earth and you've got an opportunity for corrosion. For example, one of our new customers from 2015 is an oil refinery and so we're monitoring corrosion protection for tanks. The applications for our products extend beyond pipelines.

On the power generation side, that growth also continues. We are securing new customers in that realm. We did in 2015 and we have already in 2016, as well, those being both end users as well as dealer partners of the generator OEMs. So, if you think about the major equipment manufacturers for generators, the structure of that market is similar to the automotive market in the United States whereby you have manufactures and a dealer network. We continue to secure new customers from those dealers, and those dealers themselves are our customers.

With respect to military, that growth also continues. We are currently monitoring and working with several parts of the military. We are monitoring generators at multiple army bases, multiple

Marine Corps bases, we are also working with the Department of Homeland Security and Border Patrol and have existing connections there and we've seen that growth continue this year as well.

I hope that give you a bit more context on the growth. We're seeing it continue in all areas as the business has grown over the past several years. Much of that has been bolstered by a recurring revenue model and increasing demand, driven by companies that are looking to further reduce their operating expenses through remote monitoring and control.

OmniMetrix has been providing these services since its founding in 1998, and we're now seeing Omni as part of a larger emerging internet of things realm where companies are realizing greater operating efficiency via remote monitoring and control. So we feel confident we're well positioned with a lot of strong demand expertise in an increasingly growing and important market.

Joel Sclar

Okay. Thank you, Walter.

Operator

And again, if you have a question, please press star then one at this time. And showing no further questions, I would like to turn the conference back over to Jan Loeb for any closing remarks.

CONCLUSION

Jan Loeb

I thank everyone for joining us today for my first opportunity to speak directly to our shareholders as CEO, and I look forward to providing quarterly updates as we move forward. As the CEO of Acorn, I will continue to work toward realizing the potential of this company and all its assets for the benefit of our employees and stockholders.

That's our vision and that was the impetus behind today's news announcement. I will also make myself available to speak with shareholders who have questions and ask you to coordinate such calls with our investor relations team at Catalyst Global. Their contact information is on today's releases and they can help you with questions or getting your name added to our investor distribution list.

And with that, we'll end today's call. Thank you all very much.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.