



4 West Rockland Road, 1st Floor, Montchanin, Delaware 19710

Phone: (302) 656-1708 Fax: (302) 656-1703

Dear Friends and Fellow Shareholders:

To date, Information Technology has transformed every aspect of American life except our two biggest expenditures--health care and energy. We communicate differently than we did twenty years ago, we learn differently, we access entertainment differently -- we even socialize differently. Yet, while technology itself has impacted the energy and health fields, Information Technology specifically has barely dented them. These two sectors of the economy suffer from tremendous inefficiencies. When Information Technology collides with the healthcare and energy industries, we predict this will unleash tremendous prosperity both for our society and for those investors who have positioned themselves for the coming change.

This isn't the place to discuss health care, but the realm of energy is our bailiwick, so I'll share a few thoughts.

The Enercosm is the coming world of networked energy. Surprisingly, the number one use of energy is **not** our end use as consumers but the extraction, refining, and distribution of energy itself. The production of energy is incredibly inefficient. In the past hundred years, those who produce and distribute most of our energy -- oil companies, coal companies and utilities -- have relied on and benefitted from economies of scale. That era, however, is drawing to a close. What's next? An era where Information Technology unleashes economies of *connection*, causing continuing deflation in the real cost of energy even as we factor in the cost of externalities like emissions controls and security.

Acorn Energy has positioned itself to promulgate and benefit from the coming transformation of the Enercosm. In 2009, as the energy industry just began to tip into the new economy, our unique focus enabled us to ride out 2009, the Great Recession year, with 50% sales growth -- a feat we expect to repeat in Fiscal 2010.

And we're just getting started.

Here are some highlights for 2009 at our constituent companies:

**CoaLogix**, our award winning cleaner coal technology provider, grew its sales by almost 80% to \$18.1 million, while gross profit increased by 156% to \$6.3 million. On January 1, 2009, the Clean Air Interstate Rule (CAIR) became effective, substantially increasing demand for CoaLogix services. We and our co-investor, EnerTech Capital III L.P. and senior members of CoaLogix management, pledged \$11.5 million in investment to build a second plant in Charlotte to meet rising customer demands. We anticipate the Steele Creek plant will be operational in the third quarter of 2010. CoaLogix is transforming the Enercosm by lowering the costs of emissions controls for coal-fired power plants. CoaLogix sits at the center of the web of air pollution controls systems and is helping our customers optimize and lower the cost of NOx removal. A recently announced collaboration with FLSmidth, a €3.5 billion market capitalization supplier of material handling equipment, will expand our portfolio of solutions to SO3 and mercury remediation.

**Coreworx** revenue for 2009, the first full year of ownership by Acorn, totaled \$4.0 million. In 2010 Coreworx will introduce four new products that will expand the appeal of its main product and substantially lower customer cost. This transition and the acquisition of Decision Dynamics (DDY-TSX.V) are expected to greatly accelerate revenue growth; however, we expect the sales acceleration will be heavily weighted to the last six months of the year. Coreworx is transforming the Enercosm by

developing software tools to improve the productivity of construction management and the global supplier networks required to build major capital projects. We are helping move the industry from islanded data collected in Excel spreadsheets to networked, web based systems that provide actionable business intelligence and enable collaboration across the global supply chain. The addition of Decision Dynamics will enable Coreworx to offer cost management in real-time that solves one of the industry's biggest headaches: poor tracking of contractor labor costs and earned value.

**DSIT** revenue in 2009 rose 10% from \$8.3 million to \$9.2 million. Gross margins increased from 34% in 2008 to 44% in 2009. Recently announced orders and a robust pipeline of sales leads are expected to increase revenue more dramatically in 2010. DSIT is transforming the Enercosm by developing intelligent systems for lowering the cost of protecting existing energy infrastructure. Energy companies are in the business of investing vast amounts of capital in energy infrastructure and then extracting cash flows over long periods of time. Our customers are becoming increasingly aware that those assets can disappear overnight in a terrorist attack. Like clean air, the security of energy assets has been taken for granted. Public policy is requiring these externalities to be included in the cost of energy. Acorn is anticipating these changes and is creating a market before others recognize the opportunity.

Two other exciting companies in our portfolio are well positioned for the transformation of the Enercosm. **GridSense**, the results of which we will fully consolidate after our acquisition at the end of April 2010, continues to gain market penetration with its revolutionary smart grid technologies. **U.S. Sensor Systems Inc. (USSI)**, in which we have options to buy a majority stake, will enable us to expand our energy security offering to pipelines, perimeter fencing, and solar farms. In addition, USSI's sensor technology is poised to be an enabling technology for 4D seismic that may help solve near-term concerns over hydrocarbon depletion.

The economic history of the world is punctuated by "jump points" - changes in the business environment so startling that we have no choice but to rethink the future. The tricky part has been identifying them at the right time. Very often investors and the media mistake the arrival of a stunning new invention for the jump point. Acorn recognizes that technology revolution is a fitful process. New technologies, particularly in the energy business, take time to be absorbed and diffused.

Most jump points occur well after the enthusiasm settles and the parade has passed. This is why we think our strategy of acquiring businesses at big discounts to previously invested capital, and only *after* the technology has been proven with reference customers, makes so much sense. In fact, we believe the most compelling opportunities of the developing cleantech industry are a continuation of the Internet and telecom technology aspects of the Information Technology revolution. The profound implication of this is that rather than making bets on traditional cleantech businesses that benefit from economies of scale (such as ethanol, solar, and wind), we are investing in businesses that benefit from economies of *connection*. These businesses benefit by both being capital-light and offering accelerating returns as their network scales. We believe our dual management/shareholder's perspective and corresponding patience with our opportunity is a big off-balance sheet asset.

In last year's letter to you I asserted that the stock market had undervalued our shares. Although it soon rebounded substantially, I continue to believe that the share price does not yet fairly reflect the full value of our business. In 2009 I acquired 75,000 shares, and as of this writing I have personally acquired another 75,000 shares in 2010.

Thank you, as always, for your continued faith in Acorn Energy.

Sincerely,



John A. Moore  
Chief Executive Officer