ACORN ENERGY
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Dear Friends and Fellow Shareholders:

I am happy to report that your company is now presented with some of the greatest growth opportunities in its history together with the resources to exploit those opportunities to their fullest potential.

Yesterday we closed on the sale of **CoaLogix** for $101 million, resulting in approximately $61.8 million in gross proceeds from the sale, given our fully diluted ownership and an estimated $5 million in tax liabilities (the latter taking into consideration significant tax-loss carry-forwards). This transaction will yield 3.4 times our investment in CoaLogix, representing a 43% internal rate of return and represents approximately $3.53 per share of proceeds. Acorn Energy has no corporate debt and three outstanding companies, each addressing potentially billion-dollar markets.

Why did we sell CoaLogix?

Bill McMahon and his team did a terrific job building CoaLogix from 30 employees and $4.5 million in revenue in November 2007 to $21.5 million in revenue and almost 100 employees by the end of 2010. They created the market for catalyst regeneration in the US and landed the industry's only long-term contracts with major utilities and new catalyst suppliers. We came to a crossroads with this excellent company where our being the largest shareholder meant investing significantly more capital and assuming correspondingly more risk. Near-term plans for CoaLogix included expanding capacity at Steele Creek, building an additional US facility and expanding into China. Our funding these activities would have required us to incur significant fundraising at the Acorn level with the associated dilution. This would have violated our core principle of acquiring and owning capital-light businesses where we can enter ahead of the portion of the growth curve which requires massive capital investment.

We initiated a process with the investment bank UBS to find the "right" buyer for CoaLogix. The search was for a new owner who could invest aggressively to help Bill and his team expand CoaLogix from the US leader in power plant catalyst regeneration to the world leader. The new owner had to be able to provide both capital and industry contacts. In response to this mandate the UBS team conducted a very thorough auction process with 72 initial candidates. The successful bid came from Energy Capital Partners, a $7 billion fund specializing in energy investing.

Now what?

Our business model of being value investors in energy technology assets remains intact. The sale of CoaLogix to Energy Capital Partners validates our strategy of being the major shareholder; investing ahead of the growth curve; proving significance in the business; and exiting where the tradeoff between growth and dilution demands access to larger pools of capital than we can comfortably provide.

Our three companies which we continue to hold are poised for aggressive growth. All three companies share the following traits: 1) they are category leaders in markets that could reach several billion dollars; 2) they have capital-light business models; and 3) they have wide economic moats resulting from first-mover advantages, proven reference customers, and strong performance based on proprietary software and intellectual property. We believe that each of these businesses has an opportunity to create substantial shareholder value (both organically and through acquisition) over the course of the next several years. Here are some specifics….

DSIT is our underwater security business based in Israel. DSIT makes systems of sonar arrays that detect and alert security teams to the presence of underwater threats to critical infrastructure. We estimate there are over 3,000 vulnerable water-based energy infrastructure facilities that could benefit from DSIT's products. An installation can range between $1 to 3 million. DSIT has established several reference customers and we believe it is the world leader in this emerging market. In 2010, DSIT had sales of $11.5 million and pre-tax profits of $1.6 million – representing the second year of profitable 24% annual revenue growth. The company has an impressive and growing pipeline of sales opportunities.

GridSense is our smart-grid platform, pioneering the emerging field of distribution optimization. Electricity steps down from transmission lines via transformers, then passes through substations and power lines until it reaches the meter at the household level, where it is used to power appliances in your home and place of work. Most electric outages occur in the transformers and wires of the distribution network. GridSense products are at the forefront of providing revolutionary technology to help utilities improve the reliability of the electric grid. The company makes cost-effective sensors that go on transformers and wires so the grid becomes a self-healing network.

We believe the growth of GridSense is going to be driven by four tectonic forces: 1) aging of the world's transformer fleet; 2) need for better reliability from the electric supply in the digital age; 3) complexity, intermittency and power-quality issues related to renewable power and electric cars; and 4) the recent availability of inexpensive communication technology that can provide real-time situational awareness from GridSense's state-of-the-art sensors. We estimate there are almost one million large and medium transformers in the USA. Our TransformerIQ® product ranges in price from $1,000 to $3,000. In June of 2011, GridSense landed the largest-ever transformer-monitoring project with one of the most progressive US utilities. This company, too, has an impressive and growing pipeline of sales opportunities and new product introductions.

US Seismic Systems is developing the critical sensor system to enable the digital oilfield revolution. The US Seismic product is a new generation of Ultra High Sensitivity (UHS) fiber optic sensors for permanent reservoir monitoring of oil and gas production. The company has received $1.8 million in orders this year, and the upcoming quarters will be a very important period for proving the technology with customers who are some of the largest oilfield operators and service companies in the world. Once proven, this technology, which we believe possesses higher sensitivity, increased ruggedness and substantial cost advantage over legacy systems, promises to dramatically improve the production of oil and gas. The current market for seismic sensor systems is $2 billion annually. We expect to sell our product for one-fifth the cost of legacy systems and expect a greater increase in demand as a result. The next year of trials and product development will provide important clues as to how much future value US Seismic will be able to create for our shareholders.

In my shareholder letter last year I discussed the Enercosm: the coming world of networked energy systems. I want to emphasize that Acorn Energy offers our shareholders a unique investment in the next era of energy prosperity. This new era will be driven by economies of connection – the benefits provided by vast networks of inexpensive sensors connected to operations centers via wireless communication. The Enercosm will yield huge productivity gains for investors and our society, and we believe we own three outstanding companies that will profit from the realization of this vision. We have the resources and management to make it happen, and some good fortune could assure our success.

As you can tell from this letter, my confidence in Acorn's future success is as high as ever. I have showed that confidence in a more concrete fashion; since my last shareholder letter, I have acquired 215,365 shares of stock through option exercises and open market purchases, increasing my ownership to 849,112 shares. I continue to believe the stock market is undervaluing our company. Be patient. In today's volatile stock market, validation of our beliefs can come quite suddenly.

As always, thank you for your continued faith in Acorn Energy. Please join us at our annual shareholder meeting on Monday, October 17, 2011 at noon at the Union League Club, 38 East 37th Street in New York City. Jacket and tie are required and no jeans.

Sincerely,

John A. Moore

John A. Moore
Chairman, President & CEO
September 1, 2011