

Acorn Energy Inc.

First Quarter 2016 Conference Call

Monday, May 16, 2016, 5:00 PM Eastern

CORPORATE PARTICIPANTS

Jan Loeb - *Chief Executive Officer*

Michael Barth - *Chief Financial Officer*

Walter Czarnecki - *President & Chief Operating Officer, OmniMetrix*

PRESENTATION

Operator

Good afternoon and welcome to the Acorn Energy's First Quarter 2016 Conference Call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your touchtone phone, to withdraw your question, please press "*" then "2." Please note this event is being recorded.

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

Michael Barth

Thank you for joining us on today's call. With me are Jan Loeb, Acorn's CEO; and Walter Czarnecki, President and COO of OmniMetrix.

Before we begin, please remember that many of the statements made on today's prepared remarks or 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 costs overruns on fixed price projects, and our success in driving growth in our core business.

Such forward-looking statements are based on management's beliefs 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 for growth in 2016 and future years. The company also undertakes no obligation to disclose any revision 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.

And with that, I will hand the call over to Jan Loeb, Acorn's CEO. Jan...

Jan Loeb

Thank you, Michael, and thank you all for joining today's call. Since it's been only a little more than three weeks since our transaction review call, there is not a lot of additional material to cover. But I did want to provide a brief overview and then an opportunity for questions.

On our last call, I outlined Acorn's three principal near term goals; one, to shore up Acorn's financial position and provide working capital support, prudent growth initiatives and we've made solid progress in that regard. Two, to rationalize our disparate operations and turnaround the company's disappointing operating performance both on a top-line and bottom line basis. And three, to focus on expanding investor awareness of the value and growth potential of the company for the benefit of Acorn's shareholders.

For those new to Acorn, I'll quickly review our recent actions to reposition the company, to learn more, please visit our website to access the press releases and recent conference call transcript.

In April, we partnered with DSIT, our sonar and underwater acoustic business with Israel-based Rafael Advanced Defense Systems Ltd, through the sale of roughly half of our ownership in the business, for \$4.9 million in cash plus a potential earn out of up to \$840,000. We believe this partnership will help accelerate DSIT's growth while also providing needed capital to Acorn. We have retained a 41.2% interest in DSIT that we believe will become increasingly valuable with Rafael's support.

Proceeds of the sale were used to pay-off approximately \$2.7 million in short term debt and to address certain aged payables, while also providing capital to support growth initiatives for our core remote monitoring OmniMetrix business.

Additionally, we have initiated the liquidation of our GridSense subsidiary as the business was not generating sufficient revenue to be on a standalone business. Reflecting this decision, GridSense is reported as discontinued operations in our Q1 results.

Our attention is to focus our growth prospects on our OmniMetrix business which is well positioned to take advantage of the rising demand from machine-to-machine and Internet of Things applications. We believed Acorn will realize the most value from this subsidiary and believe it can maintain its industry-leading position.

OmniMetrix provides cutting-edge infrastructure that [indiscernible] monitors critical residential and industrial assets against emergency events. Remote monitoring is a scalable business with attractive margins and recurring revenue streams.

OmniMetrix has a solid product and service offering with a wide scope of potential applications that present an attractive business platform and potential for significant growth over the next few years. OmniMetrix demand is led by gas utilities, pipeline companies, refineries and other businesses needing to more efficiently manage their infrastructure network. These asset intensive businesses are constantly looking for technology that can reduce operating expenses and improve the accuracy of corrosion level monitoring which our products provide.

Our OmniMetrix growth strategy for the power generation division is three-fold, adding new backup generator dealer customers, expanding subscriptions with existing dealer customers and adding new large opportunity end-user customers, such as hospitals, telecoms, the military, et cetera. Similarly, the corrosion protection monitoring division's growth strategy is focused on adding new pipeline, refinery and gas utility customers, expanding our base of monitoring subscriptions with existing customers, as well as adding new distribution relationships.

Over the past few months, we have made solid progress on a process to focus resources on our most promising business prospects, we are also working to eliminate costs to improve our operating results. While it will take a few quarters to see the full benefits of our actions, we believe Acorn is now on a far stronger path for growth, improved bottom line results and ultimately value creation potential for our shareholders.

With that, I'll hand the call back to Michael for a brief review of our first quarter financials.

Michael Barth

Thank you, Jan. Given the strategic changes we have made to the business, our financial reporting is changing significantly. Effective with our second quarter of this year, we will no longer consolidate the results of DSIT which will reduce our reported revenues each quarter to just that our OmniMetrix business.

Focusing on just OmniMetrix, that businesses revenue grew 25% in the first quarter of 2016 to \$841,000 compared to \$673,000 in the first quarter of 2015. The revenue improvement continues to be driven by the increase in units being monitored.

DSIT also demonstrated growth in the period with revenues increasing 29% to \$3.9 million from \$3 million in the first quarter of 2015. The increase was principally due to a \$15.4 million project DSIT secured in the first quarter of 2015.

Our net loss for the first quarter of 2016 was \$3 million, or \$0.11 per share of which \$0.06 per share was in continuing operations. This compared to a \$2.9 million net loss in the first quarter of 2015, also \$0.11 per share and also including a net loss of \$0.06 per share from continuing operations. Looking forward, our second quarter results will reflect solely our OmniMetrix business on the revenue line. So on a quarterly basis; reported revenues will be reduced substantially.

Blended gross margin in OmniMetrix is expected to be over 50% including gross margins in the recurring monitoring revenue stream of over 80%. From a cost standpoint, corporate, general and administrative overhead excluding special costs such as attorney and other fees related to the strategic initiatives have been reduced to approximately \$400,000 per quarter. And we are working to make further reductions.

It will take some time but continued work on the cost side combined with growth in the business should lead to better operating performance for Acorn and ultimately the profitability which has long been elusive.

Finally, I want to call your attention to a few recent Form 4 transactions including the purchase of 465,587 shares of stock by Mannie Jackson, Director of our company who converted a prior loan to the company into stock at a price of \$0.247 per share.

Additionally, Acorn Director, Edgar Woolard; along with our CEO, Jan Leob, today reported the purchase of a total of 800,000 shares of Acorn stock from the company's previous CEO. The shares were purchased in a previously negotiated private transition. We believe these purchases clearly align management and the board's interest with all shareholders while also demonstrating their confidence in Acorn's future prospect.

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

QUESTION AND ANSWER

Operator

Thank you. To ask a question, you may press "*" then "1" your touchtone phone. If you are using a speakerphone please pick up your handset before pressing the keys, to withdraw your question please press "*" then "2." Once again, that's "*" then "1" if you like to ask a question and we will pause momentarily to assemble our roster.

The first question is from Michael Zuk at Oppenheimer.

Michael Zuk

Good afternoon, everybody. Turning to the three months ended income statement, for the quarter March 31, 2016, it says total revenues of \$4.761 million, it says total cost of sales of \$2.130 million, and it says gross profit of \$1.631 million. Is there a typo there or is there a line item that was omitted.

Jan Loeb

That appears to be a typo that should be 3130. That's in the press release.

Michael Zuk

Anyway, I was just...added up in my head and I couldn't reconcile it.

Jan Loeb

Okay, now that's \$3.130 million.

Michael Zuk

So \$3.130, not two \$2.130 million?

Jan Loeb

The gross profit is \$1.631 million.

Michael Zuk

Okay. Well, I could not reconcile it, so that answers my question. Thank you.

Operator

Once again, to ask a question you may press "*" then "1." I show no further questions at this time. Mr. Loeb, would you like to make closing comments?

CONCLUSION**Jan Loeb**

Sure. Thank you all for joining us today. I'm available to speak with shareholders and potential investors and ask you to coordinate such calls with our investor relations team. Their contact information is on today's press release. And since there were no...not a lot of questions, I hope that some of you will be in touch with our IR team to learn about Acorn and its potential. And with that, we'll end today's call. Thank you very much.

Operator

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