

ACORN FACTOR, INC.
Form 10-Q
November 19, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2007**

Commission file number: **0-19771**

ACORN FACTOR, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-2786081
(I.R.S. Employer
Identification No.)

4 West Rockland Road
Montchanin, Delaware
(Address of principal executive offices)

19710
(Zip Code)

(302) 656-1708
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 16, 2007
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Common Stock, \$0.01 par value per share

10,231,143 shares

ACORN FACTOR, INC.
Quarterly Report on Form 10-Q
for the Quarterly Period Ended September 30, 2007

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Certain statements contained in this report are forward-looking in nature. These statements are generally identified by the inclusion of phrases such as "we expect", "we anticipate", "we believe", "we estimate" and other phrases of similar meaning. Whether such statements ultimately prove to be accurate depends upon a variety of factors that may affect our business and operations. Many of these factors are described in our most recent Annual Report on Form 10-K as filed with Securities and Exchange Commission.

ACORN FACTOR, INC. AND SUBSIDIARIES**Consolidated Balance Sheets**

(in thousands, except share and per share data)

ASSETS	As of December 31, 2006	As of September 30, 2007 (unaudited)
Current assets:		
Cash and cash equivalents	\$ 1,521	\$ 4,196
Accounts receivable, net	1,373	1,804
Unbilled work-in-process	393	507
Other current assets	316	542
Total current assets	3,603	7,049
Property and equipment, net	445	581
Investment in Comverge	--	91,549
Investment in Paketeria	1,212	2,270
Investment in Local Power	--	268
Funds in respect of employee termination benefits	1,568	1,455
Goodwill	97	101
Other intangible assets, net	48	5
Other assets	285	174
Total assets	\$ 7,258	\$ 103,452
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term bank credit	\$ 462	\$ 94
Current maturities of long-term debt	26	48
Note payable - related party	300	--
Trade accounts payable	378	728
Accrued payroll, payroll taxes and social benefits	478	822
Other current liabilities	1,700	2,564
Total current liabilities	3,344	4,256
Long-term liabilities:		
Investment in Comverge, net	1,824	--
Convertible debt, net of discounts	--	5,041
Liability for employee termination benefits	2,545	2,093
Deferred taxes	--	21,522
Other liabilities	6	--
Total long-term liabilities	4,375	28,656
Shareholders' equity:		
Common stock - \$0.01 par value per share:		
Authorized - 20,000,000 shares; Issued -10,276,030 shares and 10,895,314 at December 31, 2006 and September 30, 2007	102	108
Additional paid-in capital	43,987	48,286
Warrants	888	1,540
Accumulated deficit	(41,904)	(31,679)
Treasury stock, at cost - 777,371 shares for December 31, 2006 and September 30, 2007, respectively	(3,592)	(3,592)
Accumulated other comprehensive income	58	55,877
Total shareholders' equity (deficit)	(461)	70,540

Total liabilities and shareholders' equity	\$	7,258	\$	103,452
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The accompanying notes are an integral part of these consolidated financial statements.

ACORN FACTOR, INC. AND SUBSIDIARIES
Consolidated Statements of Operations (unaudited)
(in thousands, except per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2006	2007	2006	2007
Sales:				
Projects	\$ 2,203	\$ 2,699	\$ 682	\$ 1,412
Services	642	557	208	154
Other	41	59	33	29
Total sales	2,886	3,315	923	1,595
Cost of sales:				
Projects	1,490	1,976	469	977
Services	547	525	178	145
Other	--	--	--	--
Total cost of sales	2,037	2,501	647	1,122
Gross profit	849	814	276	473
Operating expenses:				
Research and development expenses	184	310	87	77
Selling, marketing, general and administrative expenses	3,537	3,012	1,571	1,153
Total operating expenses	3,721	3,322	1,658	1,230
Operating loss	(2,872)	(2,508)	(1,382)	(757)
Finance expense, net	(23)	(2,827)	(17)	(716)
Gain on public offering of Comverge	--	16,169	--	--
Gain on private placement of Paketeria	--	533	--	533
Other income, net	330	--	--	--
Income (loss) before taxes on income	(2,565)	11,367	(1,399)	(940)
Taxes on income	8	9	2	4
Income (loss) from operations of the Company and its consolidated subsidiaries	(2,573)	11,358	(1,401)	(944)
Share of losses in Comverge	(210)	--	--	--
Share of losses in Paketeria	(250)	(828)	(250)	(440)
Net income (loss) from continuing operations	(3,033)	10,530	(1,651)	(1,384)
Net income from discontinued operations, net of tax	78	--	--	--
Loss on sale of discontinued operations and contract settlement, net of tax	(2,298)	--	--	--
Net income (loss)	\$ (5,253)	\$ 10,530	\$ (1,651)	\$ (1,384)
Basic net income (loss) per share:				
Income (loss) per share from continuing operations	\$ (0.37)	\$ 1.08	\$ (0.20)	\$ (0.14)
Discontinued operations	(0.27)	--	--	--
Net income (loss) per share - basic	\$ (0.64)	\$ 1.08	\$ (0.20)	\$ (0.14)
Diluted net income (loss) per share:				
Income (loss) per share from continuing operations	\$ (0.37)	\$ 1.01	\$ (0.20)	--

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Discontinued operations	(0.27)	--	--	--
Net income (loss) per share -diluted	\$ (0.64)	\$ 1.01	\$ (0.20)	--
Weighted average number of shares outstanding -				
Basic	8,163	9,723	8,164	10,063
Diluted	8,163	10,814	8,164	10,063

The accompanying notes are an integral part of these consolidated financial statements.

ACORN FACTOR, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Shareholders' Equity (unaudited)
(in thousands)

	Number of Shares	Common Stock	Additional Paid-In Capital	Warrants	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balances as of December 31, 2006	10,276	\$ 102	\$ 43,987	\$ 888	\$ (41,904)	\$ (3,592)	\$ 58	(461)
Net income	--	--	--	--	10,530	--	--	10,530
FAS 115 adjustment on Converge shares, net of deferred taxes	--	--	--	--	--	--	55,682	55,682
Differences from translation of financial statements of subsidiaries	--	--	--	--	--	--	137	137
Comprehensive income	--	--	--	--	--	--	--	66,349
FIN 48 adjustment	--	--	--	--	(305)	--	--	(305)
Exercise of options and warrants	619	6	1,129	(92)	--	--	--	1,043
Adjustment of transaction costs of previous private placements	--	--	(15)	--	--	--	--	(15)
Warrants issued to placement agent with respect to private placement of Debentures	--	--	--	213	--	--	--	213
Warrants issued with respect to private placement of Debentures	--	--	--	531	--	--	--	531
Beneficial conversion feature with respect to private placement of Debentures	--	--	2,570	--	--	--	--	2,570

Stock option compensation	--	--	615	--	--	--	--	615
Balances as of September 30, 2007	10,895 \$	108 \$	48,286 \$	1,540 \$	(31,679)\$	(3,592)\$	55,877 \$	70,540

The accompanying notes are an integral part of these consolidated financial statements.

ACORN FACTOR, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (unaudited)
(dollars in thousands)

	Nine months ended	
	2006	September 30,
	2007	
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ (5,253)	\$ 10,530
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	165	118
Impairment of software license	--	23
Share in losses of Comverge	210	--
Share in losses of Paketeria	52	779
Increase (decrease) in liability for employee termination benefits	188	(167)
Amortization of stock-based deferred compensation	1,346	615
Loss on sale of Databit and contract settlement	2,298	--
Amortization of beneficial conversion feature, debt origination costs and value of warrants in private placement of Debentures	--	2,516
Gain on public offering of investment in Comverge	--	(16,169)
Gain on private placement of Paketeria	--	(533)
Other	8	(6)
Change in operating assets and liabilities:		
Decrease (increase) in accounts receivable, unbilled work-in process and other current and other assets	642	(504)
Increase in inventory	(18)	--
Increase (decrease) in accounts payable and other liabilities	(708)	947
Net cash used in operating activities	(1,070)	(1,851)
Cash flows provided by (used in) investing activities:		