Carbonite Inc
Form 4
August 05, 2014

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
FRIEND DAVID

(Last) (First) (Middle)

C/O CARBONITE, INC., 177 HUNTINGTON AVENUE

(Street)

BOSTON, MA 02115

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Carbonite Inc [CARB]

3. Date of Earliest Transaction (Month/Day/Year)
08/01/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
CEO and President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	08/01/2014		P		5,000	A	$ 9.8275 (1)	239,914	I (2)	By Trust (2)
Common Stock								1,035,752 (3)	D	
Common Stock								352,406	I (4)	By Trust (4)
Common Stock								86,432	I (5)	By Trust (5)
Common Stock								86,432	I (6)	By Trust (6)

Common Stock	24,525	I (7)	By Spouse (7)
Common Stock	27,006	I (8)	By Trust (8)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
FRIEND DAVID C/O CARBONITE, INC. 177 HUNTINGTON AVENUE BOSTON, MA 02115	X		CEO and President	

Signatures

/s/ Danielle Sheer, by power of attorney	08/05/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The price reported in Column 4 is a weighted average price. The shares were purchased in multiple transactions at prices ranging from $9.71 to $9.90, inclusive. The reporting person undertakes to provide to the issuer, any security holder of the issuer, or the staff of the

Securities and Exchange Commission, upon request, full information regarding the number of shares purchased at each separate price within the range set forth in this footnote.

(2) These shares are owned by the David Friend Revocable Trust. The reporting person is trustee of the trust. The reporting person disclaims beneficial ownership of these securities, except to the extent of his pecuniary interest therein and this report shall not be deemed an admission that the reporting person is the beneficial owner of such securities for Section 16 or any other purpose.

(3) Includes 46,875 shares of common stock subject to restricted stock units. Each restricted stock unit represents a contingent right to receive one share of the issuer's common stock. The restricted stock units vest in 15 equal quarterly installments beginning on August 31, 2014 and will be settled on each applicable vest date in shares of the issuer's common stock.

(4) These shares are owned by the David Friend 2010 Qualified Annunity Trust I. The reporting person is trustee of the trust. The reporting person disclaims beneficial ownership of these securities, except to the extent of his pecuniary interest therein and this report shall not be deemed an admission that the reporting person is the beneficial owner of such securities for Section 16 or any other purpose.

(5) These shares are owned by the David Friend 2009 Qualified Annunity Trust III. The reporting person is trustee of the trust. The reporting person disclaims beneficial ownership of these securities, except to the extent of his pecuniary interest therein and this report shall not be deemed an admission that the reporting person is the beneficial owner of such securities for Section 16 or any other purpose.

(6) These shares are owned by the Margaret F.A. Shepherd 2009 Qualified Annuity Trust II. The reporting person's spouse is trustee of the trust. The reporting person disclaims beneficial ownership of these securities and this report shall not be deemed an admission that the reporting person is the beneficial owner of such securities for Section 16 or any other purpose.

(7) These shares are owned by Margaret F.A. Shepherd. The reporting person disclaims beneficial ownership of these securities and this report shall not be deemed an admission that the reporting person is the beneficial owner of such securities for Section 16 or any other purpose.

(8) These shares are owned by the Margaret Shepherd Revocable Trust. The reporting person's spouse is trustee of the trust. The reporting person disclaims beneficial ownership of these securities, except to the extent of his pecuniary interest therein and this report shall not be deemed an admission that the reporting person is the beneficial owner of such securities for Section 16 or any other purpose.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. oman, Times, Serif">222 316 Restructuring liabilities 82 79 Other 88 37 $3,028 $2,796

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NOTE 13—ACCRUED SEVERANCE, SEVERANCE ASSETS AND RETIREMENT PLANS

(a) Accrued Severance and Severance Assets

(i) Israeli labor law and certain employee contracts generally require payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The Company has recorded under liability for employee termination benefits the amount that would be paid if all its Israeli employees were dismissed at the balance sheet date, on an undiscounted basis, in accordance with Israeli labor law. This liability is computed based upon the employee’s number of years of service and salary components, which in the opinion of management create entitlement to severance pay in accordance with labor agreements in force. The amounts due were determined based on the employees’ current salary rates and the number of service years that will be accumulated upon their retirement date. The non-current portion of the liability is reflected on the Company’s Consolidated Balance Sheets as Accrued severance while the current portion of the liability is reflected on the Company’s Consolidated Balance Sheets in Accrued payroll, payroll taxes and social benefits.

The liability is partially funded by sums deposited in dedicated funds in respect of employee termination benefits and is reflected on the Company’s Consolidated Balance Sheets as Severance assets. For certain Israeli employees, the Company’s liability is covered mainly by regular contributions to defined contribution plans. These funded amounts are not reflected in the balance sheets, since they are not under the control and management of the Company.

(ii) Severance pay contributions to dedicated funds amounted to $411 and $375 for the years ended December 31, 2014 and 2015, respectively.

(iii) The Company expects to contribute approximately $394 in respect of its severance pay obligations in the year ending December 31, 2016.

(iv) The table below provides a breakdown of the Company's severance liability and severance assets as of December 31, 2014 and 2015.

	As of December 31,	
	2014	2015
Current severance liability (included in Accrued payroll, payroll taxes and social benefits)	$200	$41

Non-current severance liability	4,594	4,984
Total severance liability	$4,794	$5,025
Amount of the total severance liability with respect to employees reaching legal retirement age in Israel in the next 10 years	$1,588	$1,501

Current severance assets (included in Other current assets)	$203	$51
Non-current severance assets	3,256	3,558
Total severance assets	$3,459	$3,609
Amount of the total severance assets with respect to employees reaching legal retirement age in Israel in the next 10 years	$1,156	$1,059

The timing of actual payment of the severance liability is uncertain as employees may continue to work beyond the legal retirement age. The liability has not been reduced to reflect any amounts already deposited in dedicated funds with respect to those employees, nor does it include future deposits.

(b) Defined Contribution Plans

The Company maintains a defined contribution plan for its U.S. salaried employees meeting age and service requirements, which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company contributes 3% of employees' salaries for those meeting the age and service requirements. The expense related to the employer portion for the years ending December 31, 2014 and 2015 was $218 (including $125 related to discontinued operations) and $100 (including $25 related to discontinued operations), respectively.

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NOTE 14—COMMITMENTS AND CONTINGENCIES

(a) Leases of Property and Equipment

Office rental and automobile leasing expenses for 2014 and 2015 were $866 and $764, respectively. The Company and its subsidiaries lease office space, cars and equipment under operating lease agreements. Those leases will expire on different dates from 2017 to 2020. Future minimum lease payments on non-cancelable operating leases as of December 31, 2015 are as follows:

Years ending December 31,	
2016	$581
2017	515
2018	509
2019	151
2020	--
2021 and thereafter	--
	$1,756

(b) Guarantees

The Company's DSIT subsidiary provides various performance, advance and tender guarantees as required in the normal course of its operations. As at December 31, 2015, such guarantees totaled approximately $9,596, which are due to expire on different dates from 2016 to 2018. As a security for these guarantees, DSIT has deposited with Israeli banks $5,123 ($2,172 presented as current restricted deposits and $2,951 as non-current restricted deposits).

See Note 11(a) with respect to guarantees on the Company's lines of credit.

(c) Royalties

(i) In 2012, DSIT and USSI were awarded a joint $900 grant from the Israel-United States Binational Industrial Research and Development ("BIRD") Foundation for the joint development of the next generation integrated passive/active threat detection system for underwater site protection. In September 2012, a Cooperation and Project Funding Agreement was signed between the companies and the BIRD Foundation which allowed for the commencement of the funding expected to take place over a 24 month period. Based on the allocation of project costs between DSIT and USSI, a majority of the grant was expected to be received by DSIT. In the years ending December 31, 2014 and 2015, the Company recorded $120 and $0, respectively, as BIRD's participation in expenses on this project ($81 and $0 with respect to DSIT for 2014 and 2015, respectively and ($39 and $0 with respect to USSI for 2014 and 2015, respectively). Amounts with respect to USSI are included in Loss from discontinued operations, net of income taxes (see Note 4). As at December 31, 2014 and 2015, the Company had recorded receivables of $94 and $0, respectively, from BIRD with respect to the project which are included in Other current assets in the Company's consolidated balance sheets.

Under the terms of the grant agreement between BIRD, DSIT and USSI, both DSIT and USSI will have to repay the grant based on 5% of gross sales of the commercialized product. If repaid within one year of the successful completion of the project, the total repayment amount is equal to the grant amount. The companies are entitled to extend the repayment period to two years in return for total repayment of 113% of the grant amount, to three years in return for total repayment of 125%, to four years in return for total repayment of 138%, or to five years or more in return for total repayment of 150% of the grant amount. The companies are entitled to prepay the repayment of the grant amount at any time.

Due to the suspension of USSI's operations and its subsequent Chapter 7 Bankruptcy Filing in September 2015 (see Note 4), the BIRD Foundation has decided that it will no longer fund DSIT's continued development of the PAUSS (either on its own or jointly with another U.S. company). It is unclear at this time how the suspension of activities at USSI and the cancellation of participation in the funding of this project by the BIRD Foundation may impact DSIT's obligations under this arrangement. The Company does not believe that the BIRD Foundation will pursue recovery of previously funded amounts (approximately $379) from DSIT.

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(ii) In September 2013, DSIT and Ramot, the technology transfer company of Tel-Aviv University, were jointly awarded a grant from MEIMAD. MEIMAD is a collaborative program between the Israeli Ministry of Defense, the Office of the Chief Scientist (“OCS”) at the Ministry of Economy and the Ministry of Finance, to jointly promote new ideas and technologies that can serve both commercial applications and military needs. The grant is for a 31-month project (19 months for the first stage and 12 months for the second stage) for the joint development of a next generation fiber optic based Perimeter Security System Interrogator. The total amount of the grant is approximately $644 for the two stages of the project representing a 50% participation in DSIT's expenses. In the years ending December 31, 2014 and 2015, DSIT recorded $273 and $197, respectively, as participation in DSIT’s expenses on this project.

In mid-2014, DSIT received approval for a new grant from MEIMAD. This grant is for the development of a fiber optic sensing system to be used in structural health monitoring of airborne structures (such as planes and Unmanned Aerial Vehicles (UAV's)). The total grant expected to be received is approximately $626 over a two-year period representing a 50% participation in DSIT's expenses. In the years ending December 31, 2014 and 2015, DSIT recorded $0 and $246, respectively, as participation in DSIT’s expenses on this project. As at December 31, 2014 and 2015, DSIT had recorded receivables of $131 and $168, respectively, from the OCS with respect to the two MEIMAD projects which are included in Other current receivables.

Grants from MEIMAD are subject to repayment by way of royalties based on 5% of gross sales of the commercialized product, if any.

(iii) GridSense is required to pay a royalty on any project sale of a particular product of not less than $100 to two employees. The royalty rate is on a sliding scale from 1.5% to 6.0%. GridSense did not pay any royalties in the years ended December 31, 2014 or 2015.

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NOTE 15—EQUITY

(a) General

At the annual meeting of stockholders on June 10, 2010, the Company's stockholders approved an amendment to its Certificate of Incorporation to increase the number of authorized shares of capital stock from 20,000,000 shares to 30,000,000 shares, all of which shall be common stock. The increase in authorized shares was done pursuant to a Certificate of Amendment to the Certificate of Incorporation filed with the Secretary of State of the State of Delaware on, and effective as of, June 15, 2010. (See Note 22 – Subsequent Events for the results of a Special Meeting of the stockholders of the Company to amend the Company's restated certificate of incorporation to increase the number of authorized shares of common stock of the Company from 30,000,000 to 42,000,000).

At December 31, 2015 the Company had issued and outstanding 27,325,591 shares of its common stock, par value $0.01 per share. Holders of outstanding common stock are entitled to receive dividends when, as and if declared by the Board and to share ratably in the assets of the Company legally available for distribution in the event of a liquidation, dissolution or winding up of the Company. Holders of common stock do not have subscription, redemption, conversion or other preemptive rights. Holders of the common stock are entitled to elect all of the Directors on the Company's Board. Holders of the common stock do not have cumulative voting rights, meaning that the holders of more than 50% of the common stock can elect all of the Company's Directors. Except as otherwise required by Delaware General Corporation Law, all stockholder action is taken by vote of a majority of shares of common stock present at a meeting of stockholders at which a quorum (a majority of the issued and outstanding shares of common stock) is present in person or by proxy or by written consent pursuant to Delaware law (other than the election of Directors, who are elected by a plurality vote).

The Company is not authorized to issue preferred stock. Accordingly, no preferred stock is issued or outstanding.

(b) Leap Tide Financing Transaction – See Note 3

(c) Capital Raise

On November 5, 2014, the Company closed on a private placement of unregistered shares of common stock and warrants to purchase common stock. The Company received gross proceeds of $4,500 ($4,007 net of transaction costs) and issued 4,285,714 unregistered shares of common stock at a price per share of $1.05 and warrants to purchase up to 2,142,857 shares of common stock at an exercise price of $1.30 per share. The warrants are non-exercisable for six months from the date of the closing and have a term of five years, six months. At the closing, pursuant to the terms of the Placement Agent Agreement, in addition to its cash fee (included in the transaction costs), the placement agent received warrants to purchase 214,285 shares of the Company's common stock at an exercise price of $1.26 per share. The placement agent's warrants are non-exercisable for six months from the date of the closing and have a term of five years.

Following the November 2014 private placement (noted above), the Company no longer had sufficient authorized shares to satisfy outstanding warrants and option agreements if all such agreements were to be exercised. Accordingly, the Company recognized this as a derivative liability and recorded such liability ($50) using the Black-Scholes valuation method to estimate the fair value of the derivative liability. The Company used a weighted average risk free interest rate of 1.1%, an expected life of 3.3 years, an annual volatility of 70% and no dividends to determine the value of the derivative liability. With the increase in authorized shares noted above, the derivative liability was reversed as of December 31, 2015.

(d) Summary Employee Option Information

The Company's stock option plans provide for the grant to officers, directors and other key employees of options to purchase shares of common stock. The purchase price may be paid in cash or at the end of the option term, if the option is "in-the-money", it is automatically exercised "net". In a net exercise of an option, the Company does not require a payment of the exercise price of the option from the optionee, but reduces the number of shares of common stock issued upon the exercise of the option by the smallest number of whole shares that has an aggregate fair market value equal to or in excess of the aggregate exercise price for the option shares covered by the option exercised. Each option is exercisable to one share of the Company's common stock. Most options expire within five to ten years from the date of the grant, and generally vest over three year period from the date of the grant. At the annual meeting of stockholders on September 11, 2012, the Company's stockholders approved an Amendment to the Company's 2006 Stock Incentive Plan to increase the number of available shares by 1,000,000 and an Amendment to the Company's 2006 Stock Incentive Plan for Non-Employee Directors to increase the number of available shares by 200,000. At December 31, 2015, 721,438 options were available for grant under the 2006 Amended and Restated Stock Incentive Plan and no options were available for grant under the 2006 Director Plan. In 2014 and 2015, there were no grants to non-employees.

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The Company did not receive any proceeds in connection with stock option exercises during the year ended December 31, 2014 as all exercises during those years were “net” exercises. The intrinsic value of options exercised in 2014 was $123. No options were exercised in the year ended December 31, 2015. The intrinsic value of options outstanding and of options exercisable at December 31, 2015 was $0 and $0, respectively.

The Company utilized the Black-Scholes option-pricing model to estimate fair value, utilizing the following assumptions for the respective years (all in weighted averages):

	2014	2015
Risk-free interest rate	2.1 %	2.1 %
Expected term of options, in years	7.0	8.6
Expected annual volatility	64 %	63 %
Expected dividend yield	— %	— %
Determined weighted average grant date fair value per option	$1.36	$0.51

The expected term of the options is the length of time until the expected date of exercising the options. With respect to determining expected exercise behavior, the Company has grouped its option grants into certain groups in order to track exercise behavior and establish historical rates. The Company estimated volatility by considering historical stock volatility over the expected term of the option. The risk-free interest rates are based on the U.S. Treasury yields for a period consistent with the expected term. The Company expects no dividends to be paid. The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in determining the estimated fair value of the Company’s stock options granted in the years ended December 31, 2014 and 2015. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

(e) Non-Employee Options

In the years ended December 31, 2014 and 2015, the Company included $37 and $0 respectively, of stock-based compensation expense in selling, general and administrative expense in its Consolidated Statements of Operations with respect to options granted to non-employees.

(f) Summary Employee and Non-Employee Option Information

A summary of the Company’s option plans as of December 31, 2014 and 2015, as well as changes during each of the years then ended, is presented below:

	2014		2015	
	Number of Options (in shares)	Weighted Average Exercise Price	Number of Options (in shares)	Weighted Average Exercise Price
Outstanding at beginning of year	1,401,658	$ 5.49	1,812,428	$ 4.51
Granted at market price	664,103	2.14	687,654	0.75
Exercised *	(33,938)	2.51	—	—
Forfeited or expired	(219,395)	3.96	(135,164)	2.91
Outstanding at end of year	1,812,428	4.51	2,364,918	3.51
Exercisable at end of year	1,128,434	$ 5.56	1,778,503	$ 4.16

* All shares issued in connection with option exercises were newly issued shares.

The breakdown of option exercises between cashless net exercises and cash exercises is as follows the year ended December 31, 2014 (there were no option exercises in the year ended December 31, 2015):

	Shares granted in net exercise of options	Options forfeited in net exercise of options	Total net exercise options	Weighted average exercise price for net exercise options	Options exercised for cash	Weighted average exercise price for options exercised for cash
Year ended December 31, 2014	33,938	76,062	110,000	$ 2.51	—	—

Summary information regarding the options outstanding and exercisable at December 31, 2015 is as follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	**Weighted Average Exercise Price**
	(in shares)	(in years)		(in shares)	
$0.20 – $1.06	802,454	7.8	$ 0.79	362,025	$ 0.85
$1.68 – $2.56	342,152	5.6	$ 1.76	288,818	$ 1.77
$3.51 – $5.00	426,264	3.4	$ 4.19	361,946	$ 4.22
$5.05 – $5.91	320,000	2.4	$ 5.21	320,000	$ 5.21
$6.31 - $7.57	310,689	4.1	$ 6.95	290,689	$ 6.91
$7.60 - $11.42	163,359	3.8	$ 8.82	155,025	$ 8.87
	2,364,918			1,778,503	

Stock-based compensation expense included in the Company’s Consolidated Statements of Operations was:

	Year ended December 31,	
	2014	2015
Cost of sales*	$2	$16
Research and development expense*	33	4
Selling, general and administrative expense*	830	641

Total	$865	$661

* Includes $16, $4 and $59 in in Cost of sales, Research and development expense and Selling, general and administrative expense, respectively, for the year ended December 31, 2015 with respect to DSIT. Includes $2 in Cost of sales in the year ended December 31, 2014 with respect to DSIT. See Note 4 with respect to stock-based compensation expense associated with discontinued operations.

As of December 31, 2015, the total compensation cost related to non-vested awards not yet recognized was approximately $250 which the Company expects to recognize over a weighted-average period of approximately 2.0 years.

(g) DSIT Stock Option Plan

In November 2006, the Company adopted a Key Employee Stock Option Plan (the "DSIT Plan") for its DSIT subsidiary to be administrated by a committee of board members of DSIT, currently comprised of the entire board of directors of DSIT. The purpose of the DSIT Plan and associated grants is to provide incentives to key employees of DSIT to further the growth, development and financial success of DSIT.

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A summary status of the DSIT Plan as of December 31, 2014 and 2015, as well as changes during the years then ended, is presented below:

	2014 Number of Options (in shares)	Weighted Average Exercise Price	2015 **Number of Options (in shares)**	Weighted Average Exercise Price
Outstanding at beginning of year	243,924	$ 1.78	239,524	$ 1.67
Granted at fair value	—	$ —	—	$ —
Exercised	—	$ —	—	$ —
Forfeited	(4,400)	$ 2.41	—	$ —
Outstanding at end of year	239,524	$ 1.67	239,524	$ 1.65
Exercisable at end of year	101,904	$ 1.45	239,524	$ 1.65

Summary information regarding the options under the Plan outstanding and exercisable at December 31, 2015 is as follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	(in shares)	(in years)		(in shares)	
$1.05 – $1.26	147,770	2.6	$ 1.18	147,770	$ 1.18
$2.40*	91,754	2.6	$ 2.40	91,754	$ 2.40
	239,524		$ 1.65	239,524	$ 1.65

*The exercise price of these options are NIS 9.38 translated to US dollars using the year end exchange rates (NIS 3.89 and NIS 3.90 for the years ended December 31, 2014 and 2015, respectively).

In January 2016, the Company converted all DSIT preferred stock to DSIT common stock. The Company currently owns approximately 88.3% of DSIT. If all the options to purchase all shares of DSIT ordinary stock granted under the DSIT Option Plan are exercised, the Company would own approximately 78.7% of DSIT on a fully-diluted basis.

(h) Warrants

The Company has issued warrants at exercise prices equal to or greater than market value of the Company’s common stock at the date of issuance. A summary of warrant activity follows:

	2014		2015	
	Number of shares underlying warrants	Weighted Average Exercise Price	Number of shares underlying warrants	Weighted Average Exercise Price
Outstanding at beginning of year	285,281	$ 3.18	2,642,423	$ 1.50
Granted	2,357,142	$ 1.30	—	—
Exercised	—	—	—	—
Forfeited or expired	—	—	(23,000)	$ 3.68
Outstanding and exercisable at end of year	2,642,423	$ 1.50	2,619,423	$ 1.48

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The warrants outstanding at December 31, 2015 have a weighted average remaining contractual life of 4.2 years.

The 2,142,847 warrants that were granted in connection with the November 2014 Capital Raise (see Note 15(c)) are exercisable for shares of the Company’s Common Stock. The warrants are non-exercisable for six months from the date of the closing and have a term of five years, six months and an exercise price of $1.30 per share. The Company allocated $1,018 to the value of the warrants based on a Black Scholes calculation using a five and a half year expected life, an annual volatility of 63%, a discount rate of 1.6% and no dividends. The value allocated to the warrants was offset against additional paid-in-capital.

In addition, the 214,285 warrants that were granted to the placement agent in connection with the November 2014 Capital Raise (see Note 15(c)) are exercisable for shares of the Company’s Common Stock. The placement agent's warrants are non-exercisable for six months from the date of the closing and have a term of five years and an exercise price of $1.26 per share. The Company allocated $97 to the value of the warrants based on a Black Scholes calculation using a five year expected life, an annual volatility of 62%, a discount rate of 1.6% and no dividends. The value allocated to the warrants was offset against additional paid-in-capital.

No warrants were exercised in 2014 or 2015.

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NOTE 16—FINANCE INCOME (EXPENSE), NET

Finance income (expense), net consists of the following:

	Year ended December 31,	
	2014	2015
Interest income	$19	$26
Interest expense*	(196)	(510)
Exchange gain, net	48	154
	$(129)	$(330)

* Interest expense in 2015 includes $225 associated with the LT Loan (see Note 3)

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NOTE 17—INCOME TAXES

(a) Composition of loss from continuing operations before income taxes is as follows:

	Year ended December 31,	
	2014	2015
Domestic	$(8,204)	$(9,110)
Foreign	(2,091)	(308)
	$(10,295)	$(9,418)

Income tax expense (benefit) consists of the following:

	Year ended December 31,	
	2014	2015
Current:		
Federal	$—	$—
State and local	1	1
Foreign	120	(49)
	121	(48)
Deferred:		
Federal	—	—
State and local	—	—
Foreign	43	259
	43	259
Total income tax expense	$164	$211

(b) Effective Income Tax Rates

Set forth below is reconciliation between the federal tax rate and the Company's effective income tax rates with respect to continuing operations:

	Year ended December 31,	
	2014	2015
Statutory Federal rates	34 %	34 %
Increase (decrease) in income tax rate resulting from:		
Tax on foreign activities	8	3
Other, net (primarily permanent differences)	(4)	(2)
Valuation allowance	(40)	(37)
Effective income tax rates	(2)%	(2)%

(c) Analysis of Deferred Tax Assets and (Liabilities)

	As of December 31,	
	2014	2015
Deferred tax assets (liabilities) consist of the following:		
Employee benefits and deferred compensation	$1,999	$1,754
Asset impairments	5,868	2,693
Other temporary differences	569	(614)
Net operating loss carryforwards	18,172	22,842
	26,608	26,675
Valuation allowance	(26,121)	(26,448)
Net deferred tax assets	$487	$227

Valuation allowances relate principally net operating loss carryforwards related to the Company's consolidated tax losses as well as state tax losses related the Company's GridSense and OmniMetrix subsidiaries and book-tax differences related asset impairments and stock compensation expense of the Company. During the year ended December 31, 2015, the valuation allowance increased by $327.

Deferred tax assets relate to primarily to net operating loss carryforwards at the Company's DSIT subsidiary. Such assets are included in Other current assets ($192 and $141 at December 31, 2014 and 2015, respectively) and Other assets ($295 and $86 at December 31, 2014 and 2015, respectively). During 2015, DSIT recorded a partial valuation allowance ($248) for certain non-current deferred assets due to the uncertainty regarding their utilization.

(d) Summary of Tax Loss Carryforwards

As of December 31, 2015, the Company had various net operating loss carryforwards expiring as follows:

Expiration	Federal	State	Foreign
2023-2035	$61,193	$20,677	$—
Unlimited	—	—	2,407
Total	$61,193	$20,677	$2,407

(e) Taxation in the United States

On October 22, 2004, The American Jobs Creation Act (the “Act”) was signed into law. The Act includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the Act. The Company’s foreign earnings are derived from the Company’s DSIT subsidiary.

As a holding company without other business activity in Delaware, the Company is exempt from Delaware state income tax. Thus, the Company’s statutory income tax rate on domestic earnings is the federal rate of 34%.

(f) Taxation in Israel

The income of DSIT is taxed at regular rates. On August 5, 2013, the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) - 2013 was published in the Official Gazette, by which the corporate tax rate was raised by 1.5% to a rate of 26.5% for the 2014 calendar year. In January 2016, the Law for the Amendment of the Income Tax Ordinance (No.(216 was published, enacting a reduction of corporate tax rate beginning in 2016 and thereafter, from 26.5% to 25%.

Effective January 1, 2014, DSIT files its income tax returns in Israel as a "Preferred Enterprise". As a Preferred Enterprise, DSIT's corporate income tax rate for 2014 (and beyond) is 16%.

(g) Uncertain Tax Positions (UTP)

As of December 31, 2014 and 2015, no interest or penalties were accrued on the balance sheet related to UTP.

During the years ending December 31, 2014 and 2015, the Company had no changes in unrecognized tax benefits or associated interest and penalties as a result of tax positions made during the current or prior periods with respect to its continuing or discontinued operations.

The Company is subject to U.S. Federal and state income tax, Australian income tax (for residual activities) and Israeli income tax. As of January 1, 2016, the Company is no longer subject to examination by U.S. Federal taxing authorities for years before 2012, for years before 2011 for state income taxes, before 2011 for Israeli income taxes and before 2012 for Australian taxes. During 2014, the Company’s U.S. Federal income tax returns for the years ended December 31, 2011 through December 31, 2012 were examined by the IRS. No material adjustments were made by the IRS in the course of their audit.

NOTE 18—RELATED PARTY BALANCES AND TRANSACTIONS

The Company recorded consulting and other fees to directors of $122 and $160 for each of the years ended December 31, 2014 and 2015, respectively, all of which are included in Selling, general and administrative expenses.

See Note 5(b) for information related to the sale of OmniMetrix Preferred Stock to one of the Company’s directors.

See Note 15(f) for information related to options and stock awards to directors and officers.

See Note 22 (Subsequent Events) for loans from the Company’s directors.

NOTE 19—SEGMENT REPORTING AND GEOGRAPHIC INFORMATION

(a) General Information

As of December 31, 2015, the Company's operations are based upon three operating segments:

Energy & Security Sonar Solutions. We provide sonar and acoustic related solutions for energy, defense and commercial markets with a focus on underwater site security for strategic energy installations and other advanced acoustic systems and real-time embedded hardware and software development and production through our DSIT Solutions Ltd. ("DSIT") subsidiary.

Smart Grid Distribution Automation. These products and services are provided by our GridSense Inc. subsidiary ("GridSense") which develops, market and sell remote monitoring and control systems to electric utilities and industrial facilities worldwide.

Machine-to-Machine Critical Asset Monitoring & Control ("M2M") (formerly Power Generation Monitoring). The M2M segment provides wireless remote monitoring and control systems and services for critical assets as well as Internet of Things applications. These activities are performed through the Company's OmniMetrix subsidiary.

During 2015, each of the abovementioned activities represented a reportable segment. In addition, our "Other" segment represents certain IT activities (protocol management software for cancer patients and billing software) and outsourced consulting activities performed by our DSIT subsidiary as well as PM activities (for remote monitoring of cathodic protection systems on gas pipelines for gas utilities and pipeline companies) in our OmniMetrix subsidiary, that do not meet the quantitative thresholds and which may be combined for reporting under applicable accounting principles.

The Company's reportable segments are strategic business units, offering different products and services and are managed separately as each business requires different technology and marketing strategies. Similar operating segments are aggregated into one reportable segment.

(b) Information about Profit or Loss and Assets

The accounting policies of all the segments are those described in the summary of significant accounting policies. The Company evaluates performance based on net income or loss before taxes.

The Company does not systematically allocate assets to the divisions of the subsidiaries constituting its consolidated group, unless the division constitutes a significant operation. Accordingly, where a division of a subsidiary constitutes a segment that does not meet the quantitative thresholds of applicable accounting principles, depreciation expense is recorded against the operations of such segment, without allocating the related depreciable assets to that segment. However, where a division of a subsidiary constitutes a segment that does meet the quantitative thresholds, related depreciable assets, along with other identifiable assets, are allocated to such division.

The following tables represent segmented data for the years ended December 31, 2015 and 2014:

	Energy & Security Sonar Solutions	GridSense	M2M	Other	Total
Year ended December 31, 2015:					
Revenues from external customers	$ 12,093	$ 2,507	$2,513	$1,942	$19,055
Intersegment revenues	—	—	—	—	—
Segment gross profit	3,834	20	1,472	861	6,187
Impairment of goodwill and intangibles	—	1,562	—	—	1,562
Restructuring and related charges	—	—	—	—	—
Depreciation and amortization	185	158	70	42	455
Segment income (loss) before income taxes	(195)	(3,921)	(1,437)	104	(5,449)
Segment assets	15,777	1,107	1,691	739	19,314
Expenditures for segment assets	114	5	--	18	137
Year ended December 31, 2014:					
Revenues from external customers	$ 11,200	$ 4,493	$2,174	$1,693	$19,560
Intersegment revenues	—	—	—	—	—
Segment gross profit	3,272	1,297	1,182	888	6,638
Impairment of goodwill and intangibles	—	1,773	—	—	1,773
Restructuring and related charges	—	198	76	20	294
Depreciation and amortization	287	242	69	48	646
Segment loss before income taxes	(414)	(4,831)	(1,698)	99	(6,844)
Segment assets	13,367	3,680	1,663	865	19,575
Expenditures for segment assets	278	6	—	44	328

(c) The following tables represent a reconciliation of the segment data to consolidated statement of operations and balance sheet data for the years ended and as of December 31, 2014 and 2015:

	Year ended December 31,	
	2014	2015
Total net loss before income taxes for reportable segments	$(6,943)	$(5,553)
Other operational segment net income (loss) before income taxes	99	104
Segment loss before income taxes	(6,844)	(5,449)
Unallocated net income (cost) of DSIT headquarters	109	120
Unallocated net cost of corporate headquarters*	(3,560)	(4,089)
Consolidated net loss before taxes on income	$(10,295)	$(9,418)

* Includes $830 and $582 of stock compensation expense for the years ended December 31, 2014 and 2015, respectively. In the year ended December 31, 2015, includes $225 of interest expense associated with the LT Loan (see Note 3).

	As of December 31, 2014	**2015**
Assets:		
Total assets for reportable segments	$18,710	$18,575
Total assets of other operational segment	865	739
Assets of discontinued operations	143	—
Unallocated assets of DSIT headquarters	4,580	4,367
Unallocated assets of OmniMetrix headquarters	507	397
Assets of corporate headquarters *	4,738	252
Total consolidated assets	$29,543	$24,330

* Includes $4,672 and $84 of unrestricted cash at December 31, 2014 and 2015, respectively.

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Other Significant Items	Segment Totals	Adjustments	Consolidated Totals
Year ended December 31, 2015			
Depreciation and amortization	$ 455	17	472
Expenditures for assets	137	27	164
Year ended December 31, 2014			
Depreciation and amortization	$ 646	$ 2	$ 648
Expenditures for assets	328	65	393

Other adjustments are primarily unallocated DSIT and corporate headquarters data which are not included in the segment information. None of the other adjustments are significant.

	Year ended December 31,	
	2014	2015
Revenues based on location of customer:		
United States	$5,279	$4,900
Israel	7,155	7,699
Asia	4,406	5,587
Oceania	1,725	548
Other	995	321
	$19,560	$19,055

	December 31,	
	2014	2015
Long-lived assets located in the following countries:		
United States	$442	$322
Israel	638	655
	$1,080	$977

(d) Revenues, Accounts Receivable and Unbilled Revenue Balances from Major Customers

All significant revenue, accounts receivable and unbilled revenue balances are with respect to customers in the Energy & Security Sonar Solutions segment.

	Revenue				Accounts Receivable				Unbilled Revenue			
	2014		2015		2014		2015		2014		2015	
Customer	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%

A	*	*	$2,701	14%	*	*	*	*	*	*	*	*
B	$3,997	20%	$2,735	14%	$1,135	23%	$1,844	28%	$2,788	35%	$1,507	39%
C	*	*	$2,889	15%	*	*	$1,049	16%	*	*	$1,087	28%
D	$1,940	10%	$2,200	12%	*	*	$834	12%	$1,402	18%	*	*
E	*	*	*	*	*	*	$1,112	17%	$979	12%	*	*
F	*	*	*	*	*	*	*	*	*	*	$408	11%
G	*	*	*	*	*	*	*	*	$1,266	16%	*	*

* Balance is not significant

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NOTE 20—FINANCIAL INSTRUMENTS

Fair values of financial instruments included in current assets and current liabilities are estimated to approximate their book values, due to the short maturity of such instruments.

NOTE 21—FAIR VALUE MEASUREMENTS

Financial items measured at fair value are classified in the table below in accordance with the hierarchy established in applicable accounting principles.

	As at December 31, 2015			
	Level 1	Level 2	Level 3	Total
Restricted deposits – current	$2,172	—	—	$2,172
Restricted deposits –non-current	2,951	—	—	2,951
Derivative liabilities	(4)	—	—	(4)
Total	$5,119	$ —	$ —	$5,119

	As at December 31, 2014			
	Level 1	Level 2	Level 3	Total
Restricted deposits – current	$467	$ —	$ —	$467
Restricted deposits –non-current	650	—	—	650
Derivative assets (liabilities)	5	—	(50)	(45)
Total	$1,122	$ —	$(50)	$1,072

Current restricted deposits are comprised of security deposits with respect to various performance and bank guarantees provided in the normal course of business for DSIT's operations that are expected to be released by December 31, 2016. DSIT has also provided $2,951 of security deposits for guarantees that are expected to be released through the middle of 2018.

Level 1 derivative assets and liabilities are related to forward contracts for the purchase of New Israeli Shekels for which market prices are readily available. Unrealized gains or losses from forward contracts are recorded in Finance income (expense), net.

Level 3 derivative liabilities are with respect to the fair value of the liability of stock options and warrants outstanding in excess of the Company's authorized shares (see Note 15(a)).

NOTE 22—SUBSEQUENT EVENTS

Sale of interest in DSIT

On January 28, 2016, the Company entered into a Share Purchase Agreement for the sale of a 50% strategic interest in its DSIT Solutions, Ltd. business to Rafael Advanced Defense Systems Ltd., a major Israeli defense company (the “DSIT Transaction”). Acorn expects to receive gross proceeds of approximately $4,913 before escrow, fees and taxes. Acorn is also eligible to receive its pro-rata share of a $1,000 earn-out over a three-year period. In addition to customary closing conditions, the DSIT Transaction requires the approval of the Israeli Ministry of Defense and the Israeli Anti-Trust Authority. Both approvals have already been received. Acorn expects that the DSIT Transaction will close in the first two weeks of April 2016. Following the sale, Acorn will own approximately 41.2% of DSIT.

The Unaudited Pro Forma Condensed Consolidated Statements of Operations below (the "Pro Forma Statements of Operations") have been prepared as if the DSIT Transaction had occurred on December 31, 2013. These Pro Forma Statements of Operations eliminate the historical consolidated statements of operations of DSIT from the consolidated operations of the Company for the years ended December 31, 2015 and 2014 and give effect to unaudited pro forma adjustments necessary to account for the sale.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2015

(in thousands, except per share data)

	Acorn consolidated	Less DSIT	Pro Forma Adjustments	Note	Pro Forma
Sales	$ 19,055	$(13,501)			$5,554
Cost of sales	12,868	(9,125)			3,643
Gross profit	6,187	(4,376)			1,811
Total operating expenses	15,275	(4,353)			10,922
Operating loss	(9,088)	(23)			(9,111)
Finance expense, net	(330)	112	(6)	(1)	(224)
Loss before taxes on income	(9,418)	89	(6)		(9,335)
Income tax expense	211	(259)			(48)
Loss before equity loss	(9,629)	348	(6)		(9,287)
Equity loss in DSIT	—	—	(108)	(2)	(108)
Net loss from continuing operations	(9,629)	348	(114)		(9,395)
Loss from discontinued operations, net of income taxes	(1,173)	—			(1,173)

Net loss	(10,802)	348	(114)	(10,568)
Non-controlling share of loss – continuing operations	105	(49)		56
Non-controlling share of loss – discontinued operations	98	—		98
Net loss attributable to Acorn Energy Inc., shareholders	$ (10,599)	$ 299	(114)	$ (10,414)

Basic and diluted net loss per share attributable to Acorn Energy, Inc. shareholders:				
From continuing operations	$ (0.36)	$ (0.01)		$ (0.35)
From discontinued operations	(0.04)	—		(0.04)
Basic and diluted net loss per share attributable to Acorn Energy, Inc. shareholders	$ (0.40)	$ (0.01)		$ (0.39)

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2014

(in thousands, except per share data)

	Acorn consolidated	Less DSIT	Pro Forma Adjustments	Note	Pro Forma
Sales	$ 19,560	$(12,311)			$7,249
Cost of sales	12,922	(8,576)			4,346
Gross profit	6,638	(3,735)			2,903
Total operating expenses	16,804	(4,137)			12,667
Operating loss	(10,166)	402			(9,764)
Finance expense, net	(129)	(175)	15	(1)	(289)
Loss before taxes on income	(10,295)	227	15		(10,053)
Income tax expense	164	(163)			1
Loss before equity loss	(10,459)	390	15		(10,054)
Equity loss in DSIT	—	—	(132)	(2)	(132)
Net loss from continuing operations	(10,459)	390	(117)		(10,186)
Loss from discontinued operations, net of income taxes	(19,140)	—			(19,140)
Net loss	(29,599)	390	(117)		(29,326)
Non-controlling share of loss – continuing operations	47	(47)			—
Non-controlling share of loss – discontinued operations	2,407	—			2,407
Net loss attributable to Acorn Energy Inc., shareholders	$ (27,145)	$343	(117)		$(26,919)

Basic and diluted net loss per share attributable to Acorn Energy, Inc. shareholders:					
From continuing operations	$ (0.46)	$(0.01)			$(0.45)
From discontinued operations	(0.73)	—			(0.73)
Basic and diluted net loss per share attributable to Acorn Energy, Inc. shareholders	$ (1.19)	$(0.01)			$(1.18)

(1) – Represents the Company's interest (income) expense with DSIT for the period

(2) – Represents equity loss in DSIT for the period

The Unaudited Pro Forma Condensed Consolidated Balance Sheet below (the "Pro Forma Balance Sheet") have been prepared as if the DSIT Transaction occurred on December 31, 2015. This Pro Forma Balance Sheet eliminates the consolidated assets and liabilities of DSIT from the consolidated balance sheet of the Company for the year ended December 31, 2015 and give effect to unaudited pro forma adjustments necessary to account for the sale.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

For the Year Ended December 31, 2015

(in thousands, except per share data)

	Acorn consolidated	Less DSIT	Pro Forma Adjustments	Note	Pro Forma
Cash, cash equivalents and escrow	$ 272	$(7)	$ 4,913	(1)	$5,178
Other current assets	15,580	(12,775)			2,805
Total current assets	15,852	(12,782)	4,913		7,983
Investment in DSIT	—	—	5,397	(2)	5,397
Other non-current assets	8,478	(7,803)			675
Total assets	$ 24,330	$(20,585)	$ 10,310		$14,055
Current liabilities	$ 16,820	$(9,951)	14	(3)	$6,883
Non-current liabilities	5,852	(5,066)	788	(3)	1,574
Total liabilities	22,672	(15,017)	802		8,457
Total Acorn Energy, Inc. shareholders' equity	366		4,303	(4)	4,669
Non-controlling interests	1,292		(363)	(5)	929
Total equity	1,658		3,940		5,598
Total liabilities and equity	$ 24,330		$ 4,742		$14,055

(1) – Represents the gross proceeds from the DSIT Transaction before transaction fees and taxes

(2) – Represents the equity investment in DSIT following the DSIT Transaction

(3) – Represents amounts due to DSIT

(4) – Represents net adjustments in the Company's shareholder equity as a result of the DSIT Transaction

(5) – Represents the elimination of non-controlling interests associated with DSIT

Loans from Directors

In January 2016, the Company borrowed a total of $300 ($200 from one director and $100 from another director) under promissory notes which mature three days following the receipt of proceeds from the closing of the DSIT Transaction. In March 2016, the Company borrowed, on similar terms, an additional $75 from another director. Upon maturity, the Company is to pay to each director a single payment equal to 115% of the amounts borrowed under the promissory notes. The lender of the most recent loan has agreed to lend the Company up to an additional $75 upon request by the Company under similar terms.

Resignation of the Company's President and CEO

Effective January 28, 2016, the Company's President and CEO (John A. Moore) tendered his resignation to the Board. The Board determined that such resignation was for "Good Reason" as such term is defined under Mr. Moore's Employment Agreement. Accordingly, commencing on or about July 28, 2016 and continuing until on or about July 27, 2017, the Company shall make aggregate severance payments to Mr. Moore of $425 as severance payment. The Company shall make such severance payment in accordance with its regular payroll practices. In addition, the Company will reimburse Mr. Moore up to an aggregate of $17 over the next twelve months for the costs associated with Mr. Moore's medical insurance. In addition, in accordance with his Employment Agreement, all of Mr. Moore's unvested options become vested as of the date of his resignation.

Appointment of new President and CEO

Effective January 28, 2016, Acorn engaged Jan H. Loeb to be the Company's President and CEO under a consulting agreement (the "Consulting Agreement") with a company (the "Consultant") managed by Mr. Loeb. Under the Agreement, the Consultant is to be paid a monthly fee of $17 for the term of the Consulting Agreement (through January 7, 2017). Pursuant to the Consulting Agreement, on March 16, 2016, Acorn issued to the Consultant, for nominal consideration, warrants exercisable for 35,000 shares of Acorn common stock. The exercise price of the warrants is $0.13 per share. One-fourth of the warrants are immediately exercisable; the remainder becomes exercisable in equal increments on each of June 16, 2016, September 16, 2016 and December 16, 2016. The warrants expire on the earlier of (a) March 16, 2023 and (b) 18 months from the date Mr. Loeb ceases to be a director, officer, employee or consultant of Acorn.

Special Meeting of the Stockholders of the Company

On March 16, 2016, a Special Meeting of the stockholders of the Company was held which approved a proposal to amend the Company's restated certificate of incorporation to increase the number of authorized shares of common stock of the Company from 30,000,000 to 42,000,000.

OmniMetrix Line-of-Credit

In February 2016, OmniMetrix signed a Loan and Security Agreement with a lender providing OmniMetrix with access to accounts receivable formula-based financing of up to $500. Debt incurred under this financing arrangement bears interest at the greater of prime (3.5% at December 31, 2015) plus 2% or 6% per year. In addition, OmniMetrix must pay a monthly service charge of 1.125% of the average aggregate principal amount outstanding for the prior month. Currently, while the Loan and Security Agreement reflects a $500 credit line, the lender has imposed a sublimit of $300 and has sole discretion as to when to remove the sublimit.