

ECHELON CORP  
Form 10-Q  
August 08, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

000-29748

(Commission file number)

**ECHELON CORPORATION**

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(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**77-0203595**  
(IRS Employer

Identification Number)

**550 Meridian Avenue**

**San Jose, CA 95126**

(Address of principal executive office and zip code)

**(408) 938-5200**

(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 filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (do not check if a smaller reporting company) Smaller reporting company

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

As of July 31, 2012, 42,884,265 shares of the registrant's common stock were outstanding.

**Table of Contents****ECHELON CORPORATION****FORM 10-Q****FOR THE QUARTER ENDED JUNE 30, 2012****INDEX**

	<b>Page</b>
<b><u>Part I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Unaudited Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011</u>	3
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011</u>	4
<u>Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2012 and 2011</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the three and six months ended June 30, 2012 and 2011</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
Item 4. <u>Controls and Procedures</u>	49
<b><u>Part II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	50
Item 1A. <u>Risk Factors</u>	50
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
Item 6. <u>Exhibits</u>	51
<b><u>SIGNATURE</u></b>	51
<b><u>EXHIBIT INDEX</u></b>	52

**FORWARD-LOOKING INFORMATION**

*This report contains forward-looking statements within the meaning of the U.S. federal securities laws that involve risks and uncertainties. Certain statements contained in this report are not purely historical including, without limitation, statements regarding our expectations, beliefs, intentions, anticipations, commitments or strategies regarding the future that are forward-looking. These statements include those discussed in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, including Critical Accounting Estimates, Results of Operations, Off-Balance-Sheet Arrangements and Other Critical Contractual Obligations, Liquidity and Capital Resources, and Recently Issued Accounting Standards, and elsewhere in this report.*

*In this report, the words may, could, would, might, will, should, plan, forecast, anticipate, believe, expect, intend, estimate, predict, potential, continue, future, moving toward or the negative of these terms or other similar expressions also identify forward-looking statements. Our actual results could differ materially from those forward-looking statements contained in this report as a result of a number of risk factors including, but not limited to, those set forth in the section entitled Factors That May Affect Future Results of Operations and elsewhere in this report. You should carefully consider these risks, in addition to the other information in this report and in our other filings with the SEC. All forward-looking statements and reasons why results may differ included in this report are made as of the date of this report, and we assume no obligation to update any such forward-looking statement or reason why such results might differ.*

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
ECHELON CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 17,389	\$ 17,658
Short-term investments	42,981	40,998
Accounts receivable, net	24,721	35,215
Inventories	9,982	11,125
Deferred cost of goods sold	1,249	6,536
Other current assets	3,081	4,044
<b>Total current assets</b>	<b>99,403</b>	<b>115,576</b>
Property and equipment, net	25,125	27,201
Goodwill	8,177	8,235
Other long-term assets	688	693
<b>Total assets</b>	<b>\$ 133,393</b>	<b>\$ 151,705</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 11,383	\$ 18,313
Accrued liabilities	4,928	7,755
Current portion of lease financing obligations	2,024	1,870
Deferred revenues	6,710	12,716
<b>Total current liabilities</b>	<b>25,045</b>	<b>40,654</b>
<b>LONG-TERM LIABILITIES:</b>		
Lease financing obligations, excluding current portion	19,228	20,193
Other long-term liabilities	1,700	1,750
<b>Total long-term liabilities</b>	<b>20,928</b>	<b>21,943</b>
<b>STOCKHOLDERS EQUITY:</b>		
Common stock	461	457
Additional paid-in capital	349,707	346,952
Treasury stock	(28,130)	(28,130)
Accumulated other comprehensive income/(loss)	(39)	244

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Accumulated deficit	(234,864)	(230,415)
Total Echelon Corporation stockholders' equity	87,135	89,108
Noncontrolling interest in subsidiary	285	
Total stockholders' equity	87,420	89,108
Total liabilities and stockholders' equity	\$ 133,393	\$ 151,705

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents**

**ECHELON CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Revenues:</b>				
Product	\$ 39,845	\$ 42,526	\$ 79,331	\$ 70,205
Service	977	1,217	1,824	1,920
<b>Total revenues</b> <sup>(2)</sup>	<b>40,822</b>	<b>43,743</b>	<b>81,155</b>	<b>72,125</b>
<b>Cost of revenues:</b>				
Cost of product <sup>(1)</sup>	24,230	22,966	46,680	37,618
Cost of service <sup>(1)</sup>	523	573	1,108	1,160
<b>Total cost of revenues</b>	<b>24,753</b>	<b>23,539</b>	<b>47,788</b>	<b>38,778</b>
<b>Gross profit</b>	<b>16,069</b>	<b>20,204</b>	<b>33,367</b>	<b>33,347</b>
<b>Operating expenses:</b>				
Product development <sup>(1)</sup>	7,393	8,874	16,194	18,472
Sales and marketing <sup>(1)</sup>	5,548	6,056	11,705	13,298
General and administrative <sup>(1)</sup>	3,599	4,771	7,945	9,661
Restructuring charges	1,176		1,176	
<b>Total operating expenses</b>	<b>17,716</b>	<b>19,701</b>	<b>37,020</b>	<b>41,431</b>
Income (loss) from operations	(1,647)	503	(3,653)	(8,084)
Interest and other income (expense), net	254	(153)	(10)	(513)
Interest expense on lease financing obligations	(344)	(371)	(695)	(748)
<b>Loss before provision for income taxes</b>	<b>(1,737)</b>	<b>(21)</b>	<b>(4,358)</b>	<b>(9,345)</b>
Income tax expense	144	120	91	115
<b>Net loss</b>	<b>\$ (1,881)</b>	<b>\$ (141)</b>	<b>\$ (4,449)</b>	<b>\$ (9,460)</b>
<b>Net loss per share:</b>				
Basic	\$ (0.04)	\$ (0.00)	\$ (0.10)	\$ (0.23)
Diluted	\$ (0.04)	\$ (0.00)	\$ (0.10)	\$ (0.23)
<b>Shares used in computing net loss per share:</b>				
Basic	42,560	42,038	42,442	41,911
Diluted	42,560	42,038	42,442	41,911

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- (1) See Note 4 for summary of amounts included representing stock-based compensation expense.
- (2) Includes related party amounts of \$1,532 and \$1,800 for the three months ended June 30, 2012 and 2011, respectively, and \$1,759 and \$2,969 for the six months ended June 30, 2012 and 2011, respectively. See Note 11 for additional information on related party transactions.

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents****ECHELON CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(In thousands)****(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net loss	\$ (1,881)	\$ (141)	\$ (4,449)	\$ (9,460)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(493)	214	(283)	690
Unrealized holding gain (loss) on available-for-sale securities		4		(1)
<b>Total other comprehensive income (loss)</b>	<b>(493)</b>	<b>218</b>	<b>(283)</b>	