

ECHELON CORP
Form 10-Q
August 08, 2012
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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.

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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)**

	June 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
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
Total current assets	99,403	115,576
Property and equipment, net	25,125	27,201
Goodwill	8,177	8,235
Other long-term assets	688	693
Total assets	\$ 133,393	\$ 151,705
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
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
Total current liabilities	25,045	40,654
LONG-TERM LIABILITIES:		
Lease financing obligations, excluding current portion	19,228	20,193
Other long-term liabilities	1,700	1,750
Total long-term liabilities	20,928	21,943
STOCKHOLDERS EQUITY:		
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.

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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
Revenues:				
Product	\$ 39,845	\$ 42,526	\$ 79,331	\$ 70,205
Service	977	1,217	1,824	1,920
Total revenues ⁽²⁾	40,822	43,743	81,155	72,125
Cost of revenues:				
Cost of product ⁽¹⁾	24,230	22,966	46,680	37,618
Cost of service ⁽¹⁾	523	573	1,108	1,160
Total cost of revenues	24,753	23,539	47,788	38,778
Gross profit	16,069	20,204	33,367	33,347
Operating expenses:				
Product development ⁽¹⁾	7,393	8,874	16,194	18,472
Sales and marketing ⁽¹⁾	5,548	6,056	11,705	13,298
General and administrative ⁽¹⁾	3,599	4,771	7,945	9,661
Restructuring charges	1,176		1,176	
Total operating expenses	17,716	19,701	37,020	41,431
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)
Loss before provision for income taxes	(1,737)	(21)	(4,358)	(9,345)
Income tax expense	144	120	91	115
Net loss	\$ (1,881)	\$ (141)	\$ (4,449)	\$ (9,460)
Net loss per share:				
Basic	\$ (0.04)	\$ (0.00)	\$ (0.10)	\$ (0.23)
Diluted	\$ (0.04)	\$ (0.00)	\$ (0.10)	\$ (0.23)
Shares used in computing net loss per share:				
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)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
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)
Total other comprehensive income (loss)	(493)	218	(283)	