

ECHELON CORP
Form 10-Q
August 08, 2014

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, 2014

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

(Exact name of registrant as specified in its charter)

Delaware 77 0203595

(State or other jurisdiction of (IRS Employer incorporation or organization) 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 x No o

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 x No o

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 x

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 o No x

As of July 31, 2014, 43,541,245 shares of the registrant's common stock were outstanding.

Table of Contents

ECHELON CORPORATION
 FORM 10 Q
 FOR THE QUARTER ENDED JUNE 30, 2014
 INDEX

	Page
<u>Part I. FINANCIAL INFORMATION</u>	
Item 1. <u>Unaudited Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of June 30, 2014 and</u>	3
<u>December 31, 2013</u>	
<u>Condensed Consolidated Statements of Operations for the three and six months</u>	4
<u>ended June 30, 2014 and 2013</u>	
<u>Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended</u>	5
<u>June 30, 2014 and 2013</u>	
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and</u>	6
<u>2013</u>	
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of</u>	
<u>Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	54
Item 4. <u>Controls and Procedures</u>	54
<u>Part II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	56
Item 1A. <u>Risk Factors</u>	56
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	56
Item 6. <u>Exhibits</u>	57
<u>SIGNATURE</u>	58
<u>EXHIBIT INDEX</u>	59

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," "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, except as required by law.

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, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$18,880	\$14,648
Restricted cash	6,250	—
Short-term investments	25,997	42,987
Accounts receivable, net ¹	8,260	10,522
Inventories	5,619	6,445
Deferred cost of goods sold	1,561	1,649
Other current assets	1,874	2,040
Total current assets	68,441	78,291
Property and equipment, net	16,716	18,670
Goodwill	4,985	8,390
Other long term assets	803	777
Total assets	\$90,945	\$106,128
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$4,747	\$5,424
Accrued liabilities	5,621	7,395
Current portion of lease financing obligations	2,370	2,257
Deferred revenues	6,523	6,125
Total current liabilities	19,261	21,201
LONG-TERM LIABILITIES:		
Lease financing obligations, excluding current portion	14,711	15,928
Other long-term liabilities	933	1,022
Total long-term liabilities	15,644	16,950
STOCKHOLDERS' EQUITY:		
Common stock	468	466
Additional paid-in capital	355,716	354,680
Treasury stock	(28,130)	(28,130)
Accumulated other comprehensive income	982	1,015
Accumulated deficit	(273,429)	(260,843)
Total Echelon Corporation stockholders' equity	55,607	67,188
Noncontrolling interest in subsidiary	433	789
Total stockholders' equity	56,040	67,977
Total liabilities and stockholders' equity	\$90,945	\$106,128

¹ Includes related party receivable of \$112,000 and \$1.6 million as of June 30, 2014 and December 31, 2013, respectively.

See accompanying notes to condensed consolidated financial statements.

3

Table of ContentsECHELON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenues:				
Product	\$14,207	\$24,208	\$30,335	\$48,458
Service	832	628	2,495	1,560
Total revenues ⁽²⁾	15,039	24,836	32,830	50,018
Cost of revenues:				
Cost of product ⁽¹⁾	7,072	12,558	15,811	25,636
Cost of service ⁽¹⁾	447	323	852	651
Total cost of revenues	7,519	12,881	16,663	26,287
Gross profit	7,520	11,955	16,167	23,731
Operating expenses:				
Product development ⁽¹⁾	4,397	5,122	9,470	11,866
Sales and marketing ⁽¹⁾	3,864	4,020	7,506	8,513
General and administrative ⁽¹⁾	3,580	3,234	7,350	7,120
Goodwill impairment charges	3,388	—	3,388	—
Loss on write down of property, equipment and other	687	—	687	—
Litigation charges	—	—	—	3,452
Restructuring charges	—	—	—	2,522
Total operating expenses	15,916	12,376	28,401	33,473
Loss from operations	(8,396)	) (421)	) (12,234)	) (9,742)
Interest and other (expense) income, net	(70)	) (164)	) (59)	) 120
Interest expense on lease financing obligations	(280)	) (312)	) (568)	) (633)
Loss before provision for income taxes	(8,746)	) (897)	) (12,861)	) (10,255)
Income tax expense	106	106	81	143
Net loss	\$(8,852)	) \$(1,003)	) \$(12,942)	) \$(10,398)
Net loss attributable to noncontrolling interest	239	176	356	324
Net loss attributable to Echelon Corporation stockholders	(8,613)	) (827)	) (12,586)	) (10,074)
Net loss per share:				
Basic	\$(0.20)	) \$(0.02)	) \$(0.29)	) \$(0.23)
Diluted	\$(0.20)	) \$(0.02)	) \$(0.29)	) \$(0.23)
Shares used in computing net loss per share:				
Basic	43,325	43,000	43,295	42,965
Diluted	43,325	43,000	43,295	42,965

⁽¹⁾ See Note 4 for summary of amounts included representing stock-based compensation expense.⁽²⁾ Includes related party amounts of \$427 and \$4,187 for the three months ended June 30, 2014 and 2013,

respectively; and related party amounts of \$1,976 and \$6,077 for the six months ended June 30, 2014 and 2013, respectively. See Note 12 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		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net loss	\$ (8,852	) \$ (1,003	) \$ (12,942	) \$ (10,398
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	36	169	(30	) (277
Unrealized holding loss on available-for-sale securities	(2	) —	(3) —
Total other comprehensive loss	34	169	(33	) (277
Comprehensive loss	\$ (8,818	) \$ (834	) \$ (12,975	) \$ (10,675
Less: comprehensive loss attributable to noncontrolling interest	\$ 239	\$ 176	\$ 356	\$ 324
Comprehensive loss attributable to Echelon Corporation Stockholders	\$ (8,579	) \$ (658	) \$ (12,619	) \$ (10,351

See accompanying notes to condensed consolidated financial statements.

Table of Contents

ECHELON CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)
 (Unaudited)

	Six Months Ended June 30,	
	2014	2013
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net loss including noncontrolling interest	\$(12,942	) \$(10,398
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,845	2,101
Goodwill impairment charges	3,388	—
Increase in allowance for doubtful accounts	49	32
Loss on disposal of and write down of property, equipment and other	692	22
Reduction of (increase in) accrued investment income	7	(5
Stock-based compensation	1,306	1,222
Change in operating assets and liabilities:		
Accounts receivable	2,213	504
Inventories	824	4,751
Deferred cost of goods sold	72	(498
Other current assets	167	(304
Accounts payable	(1,032	) (2,381
Accrued liabilities	(1,659	) 3,939
Deferred revenues	402	978
Deferred rent	(21	) (17
Net cash used in operating activities	(4,689	) (54