Echelon Corporation (ELON)

Q1:12 Results

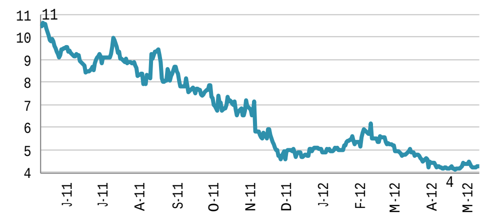
We reiterate our Outperform rating but are lowering our price target to $6. Delays at a number of utilities have reduced ELON's visibility into 2H:12 revenues casting doubt on its goal of full-year non-GAAP profitability. That said, we remain positive on ELON's ongoing activity with partners in Brazil and China and its continued focus on cost reductions. Though we expect the stock to be under pressure following the call, we maintain our Outperform rating due to ELON's significant technology value.

- **Q1 results beat estimates.** ELON reported Q1:12 revenue of $40.3M vs. our/consensus estimates of $39.7M/$40.1M and non-GAAP EPS of $0.01 vs. our/consensus estimates of ($0.05)/($0.04).
- **Limited visibility into 2012 profitability.** Delays in RFP awards at a number of utilities have reduced ELON's visibility into 2H:12 revenues. There is some doubt over whether it can convert a sufficient amount of its systems pipeline in the near term to make up for declining revenues from projects winding down at Duke and Fortum. As a result, visibility into 2012 non-GAAP profitability is limited.
- **Restructuring to drive additional cost reductions.** ELON will cut its workforce by 10% in order to realign costs with potential lower revenues in 2H:12. Along with other initiatives, ELON expects operating expenses to decline y/y, though it will take a GAAP restructuring charge of $1.2M-$1.7M in Q2.
- **Momentum with emerging market partners continues though we don't expect material revenue contribution until 2013.** Management indicated it has a $100M multi-year pipeline in Brazil and a $70M pipeline in China. While we don't expect material contribution from either country in 2012, we could see growth in 2013 as pilots potentially move to large-scale deployments, particularly in Brazil.
- **CPM 0600 could create inroads in Asia.** Mitsubishi in Taiwan, VIDCOM in South Korea, and Holley in China have agreed to design meters with the CPM sub-system to enable smart communications. We think the modular product could help ELON create inroads into markets that primarily utilize electro-mechanical meters today.
- **Lowering our price target to $6**. We have reduced our 2012 EV/Revenue multiple from 2.0x to 1.5x based on limited visibility in 2H:12. While still a premium to its comps (near 1x), we think it's warranted based on ELON's strong technology and emerging market opportunities.

ELON develops and sells advanced metering and building automation solutions. It is headquartered in San Jose, CA.

LOWERING PRICE TARGET

1-Year Price Chart



Stock Data

Rating:	Outperform
Suitability:	Higher Risk
Price Target/Previous:	▼$6/$9
Price (5/9/12):	$4.27
Market Cap (mil):	$183
Shares Out (mil):	42.9
Average Daily Vol (mil):	0.19
Dividend Yield:	0.0%

Estimates

FY Dec	2011A	2012E	2013E
Q1	(0.15) A	0.01 A	
Q2	0.05 A	(0.04) E	
Q3	0.04 A	0.01 E	
Q4	(0.03) A	0.02 E	
Fiscal EPS	**(0.08) A**	**(0.01) E**	**0.10 E**
Previous (FY)		0.01 E	0.14 E
Fiscal P/E	NM	NM	42.7x

Chart/Table Sources: Bloomberg and Baird Data

Please refer to Appendix - Important Disclosures and Analyst Certification

Ben Kallo, CFA
bkallo@rwbaird.com
415.364.3345

Christopher M. Kovacs
ckovacs@rwbaird.com
415.364.3342

Details

Q1:12 Reported Results

ELON: Q1:12 Results

	Q1:12			Q1:11	
	Reported Results	Pre-Call Baird	Pre-Call Consensus	Reported Results	Y/Y Growth
Revenue ($M)	$40.3	$39.7	$40.1	$28.4	*42.0%*
Non-GAAP Gross Profit	$17.6	$15.9	$16.0	$13.5	*30.4%*
Gross Margin (%)	*43.5%*	*40.0%*	*39.8%*	*47.4%*	
GAAP Operating Income ($M)	($2.0)	($4.9)	($3.8)	($8.6)	*n/a*
Operating Margin (%)	*-5.0%*	*-12.5%*	*-9.5%*	*-30.3%*	
Non-GAAP Net income ($M)	$0.2	($2.0)	($2.5)	($6.1)	*n/a*
Net Margin (%)	*0.6%*	*-5.2%*	*-6.1%*	*-21.6%*	
Non-GAAP EPS	$0.01	($0.05)	($0.04)	($0.15)	*n/a*

Source: Company reports, Robert W. Baird Estimates, FactSet

Note: Consensus estimates are a mixture of GAAP and non-GAAP figures.

Revenue. ELON reported Q1:12 revenue of $40.3M vs. our/consensus estimates of $42.2M/$40.1M. Revenue increased 42.0% y/y from the $28.4M reported in Q1:11. Individual operating segments recorded the following results:

- **Systems Segment** revenue of $28.7M vs. our estimate of $26.3M. This represented revenue growth 96.6% y/y from the $14.6M reported in Q1:11. The Systems Segment comprised 71.2% of total revenues and was largely driven by ELON's AMI deployments at Duke and Fortum.
- **Sub-Systems Segment** revenue of $11.6M vs. our estimate of $11.6M. The Sub-system Segment comprised 28.3% of total revenues and increased declined 9.5% y/y. The y/y decrease was largely driven by lower sales to Enel, which management expects to return to more normalized levels in Q2.

Gross margin benefits from recognition of deferred revenue at Fortum. ELON reported Non-GAAP gross margins of 43.5% vs. our/consensus estimates of 40.0%/39.8%. Gross margin for the quarter benefited from the recognition of $1.5M in previously deferred revenue under the company's shipments to Fortum, which positively impacted margin by 220bps. As a reminder, ELON had been recognizing costs while deferring revenue on shipments of its CNX meters to Fortum until it provided a necessary firmware update to enable certain functionality. This was done in Q1, allowing the deferred revenue to be recognized.

Operating Expenses: ELON reported total operating expenses of $19.3M for the quarter vs. our previous estimate of $20.4M. Individual line items broken out below include the impact of stock-based comp which is excluded from ELON's non-GAAP results and totaled $2.8M for the quarter.

- **Product Development** expense of $8.8M vs. our estimate of $8.9M. This was a y/y decrease of 8.3% from the $9.6M in Q1:11.
- **Selling & Marketing** expense of $6.2M vs. our estimate of $6.7M. This was y/y decrease of 15.0% over the Q1:11 figure of $7.2M
- **General & Administrative** expense of $4.3M vs. our estimate of $4.8M. This represented a decrease of 11.1% y/y from the $4.9M reported in Q1:11.

Non-GAAP Net Income and EPS beat estimates. ELON reported Non-GAAP Net Income of $0.2M, above our/consensus estimates of ($2.1M)/($2.5M) and Non-GAAP EPS of $0.01 vs. our/consensus estimates of ($0.05)/($0.04).

Provides Q2:12 guidance - continues to target FY:12 Non-GAAP profitability. Management guided to Q2:12 revenue of $38-$41M and Non-GAAP gross margin of approximately 41% which is essentially flat q/q when excluding the positive impact from the deferred revenue recognition in Q1. ELON expects to derive ~65% of its Q2 revenue from system sales with the remain 35% being from sub-systems, including Enel. Non-GAAP loss per share is expected to be in the range of ($0.04) – $0.00 with a GAAP loss of ($0.15) – ($0.10) on weighted-average diluted shares of XM. Additionally, the ELON is targeting modest FY:12 revenue growth and maintains its goal of full-year non-GAAP profitability for 2012.

Investment Thesis

Echelon's technology is more than a meter -- ELON provides "Control Networks." Aside from its electric AMI offering, ELON provides technology that creates intelligent devices and extends control into buildings, which is an integral component of monetizing the Smart Grid. ELON has shown recent momentum in street lighting applications and has indicated it is seeing growth in building automation solutions return to pre-recession levels.

International partnerships could help drive metering sales in 2013+. ELON has entered into partnerships with value-added reseller (VAR), ELO, as well as one of China's largest metering manufacturers, Holley Metering. Through these relationships, ELON will sell metering sub-systems to be integrated into ELO and Holley meters to allow for enhanced networking capabilities. ELO has already begun piloting meters containing ELON components and larger pilots are expected in 2H:12 with volume deployments in 2013. ELON and Holley are submitting products for approval to China's State Grid in Q2:12 and piloting could begin in 2013. We favor ELON's strategy of leveraging partnership opportunities to drive entry into emerging Smart Grid markets.

Echelon's communication technology is responsible for the largest advanced meter deployment in the world at Enel which should help ELON realize additional wins as European utilities move to advanced metering. ELON's PLC transceivers were used by Italian utility Enel to upgrade 27 million standard electricity meters to advanced endpoints. Since the Enel deployment, ELON has been successful at winning several other European smart meter projects including notable projects such as Fortum (Finland) and Vattenfall (Sweden). We think ELON will continue to have success winning new smart meter projects in Europe as European countries attempt to meet their 2020 smart meter compliance..

Catalysts include: Sales by (1) VAR ELO in Brazil/South America and (2) Holley Metering in China, (3) customer orders for ECN, (4) rebound in Commercial business as economy strengthens and sales to Asia increase, (5) new AMI wins in Europe, and (6) full-year non-GAAP profitability

$6 price target. Our $6 price target is based on an EV/Sales multiple of 1.5x our 2012 sales estimate. While still a premium to its comps (near 1x), we think it's warranted based on ELON's strong technology and emerging market opportunities. Risks include slowdown in AMI deployments, economic slowdown, and delayed profitability.

Risks & Caveats

Long and often unpredictable sales cycles to utility customers. Echelon's NES metering solution is sold to utilities either directly or through the company's network of VARs. The sales cycles of utilities are often long and unpredictable due to budgeting and regulatory considerations as well as required field trials and the complex tasks of integrating new technology into expansive existing infrastructures. This can result in unpredictable revenue associated with this portion of the company's business.

Commercial product sales dependent on OEM processes, and timing and volumes are often unpredictable. Similarly to NES, LWI sales cycles are often lengthy and unpredictable. Echelon has to educate prospective OEM's about the applications and benefits of its technology and is subject to intensive evaluation processes before its customers make the commitment to integrate. Volume sales are dependent on the OEM's own product development schedules and marketing efforts over which ELON has no control.

Exposure to international markets and associated currency risk. Echelon generates a substantial portion of its revenue outside of the U.S. Unfavorable changes in exchange rates could negatively impact the company's results. The majority of ELON's manufacturing is completed in China and though it typically denominates its contracts in U.S. dollars, in the future such agreements may be local currencies. The company has taken a policy of not hedging any of its foreign currency exposure which subjects it to risk associated with variability in the currency markets.

Supplier concentration risk - reflected by recent price increases from Jabil. Echelon relies on a small number of contract electronic manufacturers (CEMs) and component suppliers which poses potential risks due to concentration. Currently two CEMs, Tyco and Jabil, are responsible for the majority of the procurement, assembly, and testing of the company's final products. ELON has recently experienced margin headwinds from higher costs Jabil. Echelon also depends on semiconductor manufacturers including Cypress Semiconductor, Toshiba, and Open-Silicon.

Company Description

Echelon develops, markets, and sells system and network infrastructure products to interconnect everyday devices such as air conditioners, thermostats, electricity meters, household appliances, and light switches. For commercial applications, the company sells its LonWorks line of products to OEMs for integration into their products and systems to allow for local intelligence capabilities, specifically "energy awareness." Its i.LON SmartServer line provides an Internet interface and localized control for remote devices, and is marketed to system integrators, including demand response providers. Echelon also sells its Networked Energy Services (NES) system to utilities, which allows two-way communication and control between the utility and the customer and provides the foundation for VARs to layer on software applications for the creation of complete advanced metering offerings. Echelon is headquartered in San Jose, California.

Echelon Corporation

Ben Kallo, CFA	**415.364.3345**
Chris Kovacs	415.364.3342

Historical and Projected Income Statement

Dollars in Millions, except per share

Fiscal Year Ends December 31st	2006	2007	2008	2009	2010	Q1:11 Mar-11	Q2:11 Jun-11	Q3:11 Sep-11	Q4:11 Dec-11	2011	Q1:12 Mar-12	Q2:12E Jun-12	Q3:12E Sep-12	Q4:12E Dec-12	2012E	2013E
Total Revenue	**$57.3**	**$137.6**	**$134.0**	**$103.3**	**$111.0**	**$28.4**	**$43.7**	**$43.8**	**$40.5**	**$156.5**	**$40.3**	**$38.6**	**$38.4**	**$38.7**	**$156.0**	**$170.5**
y/y growth %		*140.2%*	*-2.6%*	*-22.9%*	*7.4%*	*56.4%*	*62.3%*	*61.6%*	*4.4%*	*40.9%*	*42.0%*	*-11.9%*	*-12.3%*	*-4.5%*	*-0.3%*	*9.3%*
q/q growth %						*-26.9%*	*54.1%*	*0.2%*	*-7.5%*		*-0.6%*	*-4.3%*	*-0.4%*	*0.7%*		
Non-GAAP Cost of Goods Sold	**$23.5**	**$86.4**	**$80.7**	**$57.5**	**$60.9**	**$14.9**	**$23.4**	**$25.7**	**$24.3**	**$88.3**	**$22.8**	**$22.6**	**$22.4**	**$22.3**	**$85.3**	**$97.4**
% of revenue	*41.0%*	*62.8%*	*60.2%*	*55.7%*	*54.8%*	*52.6%*	*53.5%*	*58.6%*	*60.0%*	*56.5%*	*56.5%*	*58.7%*	*58.2%*	*57.7%*	*54.7%*	*57.1%*
Non-GAAP Gross Profit	**$33.8**	**$51.2**	**$53.3**	**$45.8**	**$50.1**	**$13.5**	**$20.3**	**$18.2**	**$16.2**	**$68.1**	**$17.6**	**$15.9**	**$16.1**	**$16.4**	**$65.9**	**$73.1**
Non-GAAP Gross Margin	*59.0%*	*37.2%*	*39.8%*	*44.3%*	*45.2%*	*47.4%*	*46.5%*	*41.4%*	*40.0%*	*43.5%*	*43.5%*	*41.3%*	*41.8%*	*42.3%*	*42.3%*	*42.9%*
Total Operating Expenses	**$63.2**	**$69.9**	**$78.5**	**$74.7**	**$78.7**	**$21.7**	**$19.7**	**$17.2**	**$19.8**	**$78.4**	**$19.3**	**$20.0**	**$18.1**	**$17.8**	**$75.2**	**$77.6**
% of revenue	*110.4%*	*50.8%*	*58.6%*	*72.3%*	*70.9%*	*76.6%*	*45.0%*	*39.2%*	*48.8%*	*50.1%*	*47.9%*	*51.9%*	*47.0%*	*46.0%*	*48.2%*	*45.5%*
Non-GAAP Operating Expenses	**$58.8**	**$63.1**	**$65.9**	**$62.0**	**$67.7**	**$18.9**	**$17.4**	**$16.2**	**$17.2**	**$69.7**	**$16.8**	**$15.8**	**$15.7**	**$15.4**	**$65.3**	**$68.0**
% of revenue	*102.6%*	*45.9%*	*49.2%*	*60.0%*	*60.9%*	*66.5%*	*39.9%*	*37.1%*	*42.3%*	*44.5%*	*41.6%*	*41.0%*	*40.8%*	*39.8%*	*41.9%*	*39.9%*
Operating Income	**($29.9)**	**($19.7)**	**($27.1)**	**($30.6)**	**($29.8)**	**($8.6)**	**$0.5**	**$0.7**	**($3.9)**	**($11.2)**	**($2.0)**	**($4.3)**	**($2.2)**	**($1.7)**	**($10.3)**	**($5.7)**
Operating Margin	*-52.2%*	*-14.3%*	*-20.2%*	*-29.6%*	*-26.9%*	*-30.3%*	*1.1%*	*1.7%*	*-9.5%*	*-7.2%*	*-5.0%*	*-11.2%*	*-5.8%*	*-4.4%*	*-6.6%*	*-3.3%*
Non-GAAP Operating Income	**($25.0)**	**($11.9)**	**($12.6)**	**($16.2)**	**($17.5)**	**($5.4)**	**$2.9**	**$1.9**	**($1.0)**	**($1.6)**	**$0.8**	**$0.1**	**$0.4**	**$1.0**	**$0.6**	**$5.1**
Non-GAAP Operating Margin	*-43.6%*	*-8.7%*	*-9.4%*	*-15.7%*	*-15.8%*	*-19.0%*	*6.6%*	*4.4%*	*-2.4%*	*-1.0%*	*1.9%*	*0.3%*	*1.1%*	*2.5%*	*0.4%*	*3.0%*
Interest and other income (expense)	$5.8	$5.7	$2.9	($0.0)	$0.4	($0.4)	($0.2)	$0.4	$0.1	$0.0	($0.3)	$0.2	$0.2	$0.2	$0.3	$0.8
% of revenue	*10.2%*	*4.2%*	*2.2%*	*0.0%*	*0.4%*	*-1.3%*	*-0.3%*	*0.9%*	*0.3%*	*0.0%*	*-0.7%*	*0.5%*	*0.5%*	*0.5%*	*0.2%*	*0.5%*
Interest expense on lease financing obligations	$0.0	($1.2)	($1.4)	($1.7)	($1.6)	($0.4)	($0.4)	($0.4)	($0.4)	($1.5)	($0.4)	($0.4)	($0.4)	($0.4)	($1.5)	($1.6)
% of revenue	*0.0%*	*-0.9%*	*-1.0%*	*-1.6%*	*-1.4%*	*-1.3%*	*-0.8%*	*-0.8%*	*-0.9%*	*-0.9%*	*-0.9%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.0%*	*-0.9%*
Pre-tax Income	**($24.1)**	**($15.2)**	**($25.5)**	**($32.3)**	**($31.0)**	**($9.3)**	**($0.0)**	**$0.8**	**($4.1)**	**($12.7)**	**($2.6)**	**($4.5)**	**($2.4)**	**($1.9)**	**($11.5)**	**($6.4)**
% revenue	*-42.1%*	*-11.1%*	*-19.0%*	*-31.2%*	*-27.9%*	*-32.9%*	*0.0%*	*1.8%*	*-10.1%*	*-8.1%*	*-6.5%*	*-11.7%*	*-6.3%*	*-4.9%*	*-7.3%*	*-3.8%*
Non-GAAP Pre-Tax Income	**($19.2)**	**($7.4)**	**($11.1)**	**($17.9)**	**($18.7)**	**($6.1)**	**$2.4**	**$1.9**	**($1.2)**	**($3.0)**	**$0.2**	**($0.1)**	**$0.2**	**$0.8**	**($0.6)**	**$4.4**
% of revenue	*-33.5%*	*-5.4%*	*-8.3%*	*-17.3%*	*-16.8%*	*-21.6%*	*5.4%*	*4.4%*	*-2.9%*	*-1.9%*	*0.4%*	*-0.2%*	*0.6%*	*2.0%*	*-0.4%*	*2.6%*
Income tax expense (benefit)	$0.4	$0.5	$0.3	($0.3)	$0.3	($0.0)	$0.1	$0.1	$0.1	$0.3	($0.1)	($0.1)	($0.0)	($0.0)	($0.2)	($0.1)
Effective Tax rate	*-1.5%*	*-3.0%*	*-1.2%*	*-0.2%*	*0.3%*	*0.1%*	*-571.4%*	*14.8%*	*-2.4%*	*0.2%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*-0.1%*	*-0.1%*
Net Income	**($24.4)**	**($15.7)**	**($25.8)**	**($32.0)**	**($31.3)**	**($9.3)**	**($0.1)**	**$0.7**	**($4.2)**	**($13.0)**	**($2.6)**	**($4.4)**	**($2.4)**	**($1.8)**	**($11.2)**	**($6.3)**
Profit Margin	*-42.7%*	*-11.4%*	*-19.3%*	*-31.0%*	*-28.2%*	*-32.8%*	*-0.3%*	*1.5%*	*-10.3%*	*-8.3%*	*-6.4%*	*-11.5%*	*-6.2%*	*-4.8%*	*-7.2%*	*-3.7%*
Non-GAAP Net Income	**($19.5)**	**($7.9)**	**($11.4)**	**($17.6)**	**($17.8)**	**($6.1)**	**$2.2**	**$1.8**	**($1.3)**	**($3.4)**	**$0.2**	**($1.7)**	**$0.3**	**$0.8**	**($0.4)**	**$4.5**
% of revenue	*-34.1%*	*-5.7%*	*-8.5%*	*-17.1%*	*-16.0%*	*-21.6%*	*5.1%*	*4.2%*	*-3.2%*	*-2.1%*	*0.6%*	*-4.4%*	*0.7%*	*2.1%*	*-0.2%*	*2.6%*
GAAP EPS	**($0.62)**	**($0.39)**	**($0.64)**	**($0.79)**	**($0.76)**	**($0.22)**	**($0.00)**	**$0.02**	**($0.10)**	**($0.31)**	**($0.06)**	**($0.10)**	**($0.06)**	**($0.04)**	**($0.26)**	**($0.15)**
Non-GAAP EPS	**($0.49)**	**($0.20)**	**($0.28)**	**($0.43)**	**($0.43)**	**($0.15)**	**$0.05**	**$0.04**	**($0.03)**	**($0.08)**	**$0.01**	**($0.04)**	**$0.01**	**$0.02**	**($0.01)**	**$0.10**
Shares Outstanding																
Basic	39.5	39.9	40.6	40.7	41.4	41.8	42.0	42.2	42.3	42.1	42.3	42.5	42.7	42.9	42.6	43.1
Diluted	39.5	39.9	40.6	40.7	41.4	41.8	42.0	43.0	42.3	42.3	42.9	42.5	42.7	42.7	42.7	43.0

Source: Company reports, Robert W. Baird & Co.

Please refer to Appendix - Important Disclosures and Analyst Certification.

Echelon Corporation

Historical Balance Sheet

Dollars in Millions, except per share

Ben Kallo, CFA 415.364.3345

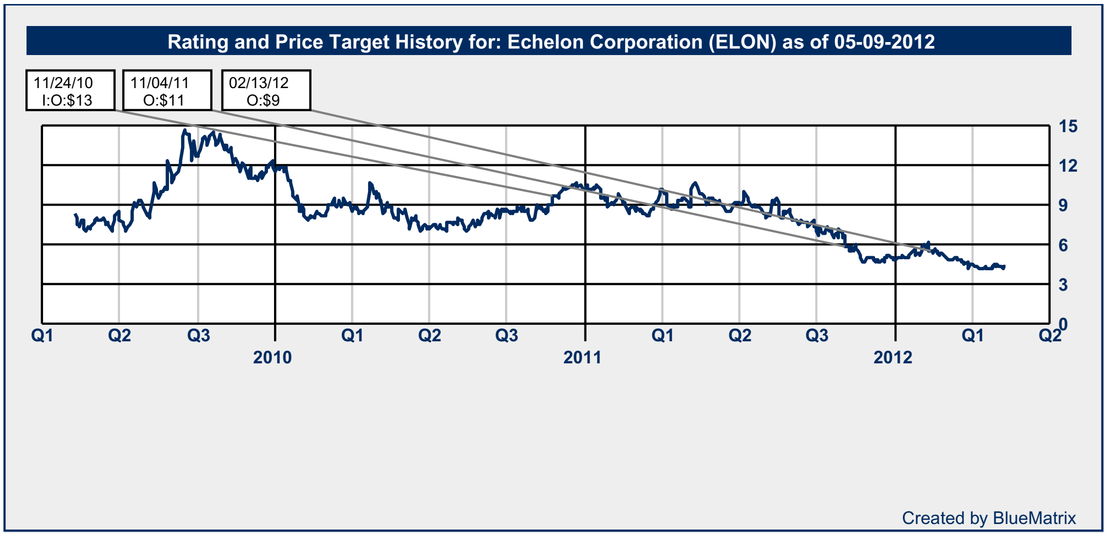
Chris Kovacs 415.364.3342

Fiscal Year Ends December 31st	2006	2007	2008	2009	Q1:10 Mar-10	Q2:10 Jun-10	Q3:10 Sep-10	Q4:10 Dec-10	2010	Q1:11 Mar-11	Q2:11 Jun-11	Q3:11 Sep-11	Q4:11 Dec-11	2011	Q1:12 Mar-12
Current Assets:															
Cash & cash equivalents	$37.4	$76.1	$37.7	$17.2	$8.7	$9.5	$22.3	$7.7	$7.7	$9.0	$28.2	$23.7	$17.7	$17.7	$20.4
Short-term investments	$86.7	$31.1	$49.6	$62.9	$67.9	$62.9	$51.9	$57.0	$57.0	$52.0	$28.0	$37.0	$41.0	$41.0	$38.0
Accounts receivable, net	$13.9	$33.5	$23.5	$21.5	$13.7	$18.7	$12.6	$25.1	$25.1	$22.5	$28.9	$27.1	$35.2	$35.2	$25.7
Inventories	$11.4	$14.0	$16.5	$10.9	$14.6	$12.0	$12.2	$9.0	$9.0	$10.2	$10.7	$10.6	$11.1	$11.1	$18.4
Deferred cost of goods sold	$19.1	$6.7	$2.5	$3.2	$2.4	$2.7	$2.4	$2.6	$2.6	$4.0	$2.4	$1.8	$6.5	$6.5	$1.1
Other current assets	$2.4	$2.3	$4.7	$3.6	$3.5	$2.6	$2.6	$4.0	$4.0	$3.4	$3.8	$5.4	$4.0	$4.0	$2.6
Total Current Assets	**$170.9**	**$163.7**	**$134.5**	**$119.3**	**$110.7**	**$108.5**	**$104.0**	**$105.3**	**$105.3**	**$101.1**	**$101.9**	**$105.6**	**$115.6**	**$115.6**	**$106.1**
Property Plant & Equipment, net	$15.2	$18.3	$40.6	$35.6	$34.4	$32.9	$32.2	$31.0	$31.0	$30.2	$29.3	$28.2	$27.2	$27.2	$26.2
Goodwill	$8.3	$8.5	$8.4	$8.5	$8.3	$8.1	$8.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Other long-term assets	$2.0	$2.0	$2.0	$1.0	$1.0	$1.0	$1.0	$9.3	$9.3	$9.2	$9.3	$9.0	$8.9	$8.9	$9.0
Total Assets	**$196.3**	**$192.5**	**$185.5**	**$164.4**	**$154.5**	**$150.4**	**$145.6**	**$145.6**	**$145.6**	**$140.4**	**$140.5**	**$142.8**	**$151.7**	**$151.7**	**$141.4**
Current Liabilities															
Accounts Payable	$6.9	$12.9	$10.7	$7.3	$5.9	$6.9	$7.4	$10.4	$10.4	$9.5	$11.0	$13.2	$18.3	$18.3	$16.3
Accrued liabilities	$4.7	$4.5	$5.1	$4.9	$7.1	$6.1	$6.2	$6.7	$6.7	$5.7	$6.9	$7.5	$7.8	$7.8	$5.3
Current portion of lease financing obligations	$0.0	$0.0	$1.4	$1.6	$1.6	$1.7	$1.7	$1.7	$1.7	$1.8	$1.8	$1.8	$1.9	$1.9	$2.0
Deferred revenues	$26.8	$16.3	$8.5	$9.3	$7.4	$8.9	$8.1	$9.2	$9.2	$12.2	$8.1	$7.0	$12.7	$12.7	$7.1
Total Current Liabilities	**$38.4**	**$33.8**	**$25.7**	**$23.0**	**$22.1**	**$23.6**	**$23.4**	**$28.0**	**$28.0**	**$29.2**	**$27.8**	**$29.5**	**$40.7**	**$40.7**	**$30.7**
Long-term Liabilities															
Lease financing obligations, less current	$1.3	$1.3	$25.4	$23.8	$23.4	$22.9	$22.5	$23.6	$23.6	$23.1	$22.7	$22.4	$21.9	$21.9	$21.4
Other long-term liabilities	$0.0	$1.3	$1.9	$1.8	$1.5	$1.5	$1.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Liabilities	**$39.7**	**$36.3**	**$52.9**	**$48.5**	**$47.0**	**$48.1**	**$47.4**	**$51.6**	**$51.6**	**$52.3**	**$50.6**	**$51.9**	**$62.6**	**$62.6**	**$52.1**
Total Stockholder's Equity	**$156.6**	**$156.1**	**$132.6**	**$115.9**	**$107.5**	**$102.4**	**$98.3**	**$94.0**	**$94.0**	**$88.1**	**$90.0**	**$90.9**	**$89.1**	**$89.1**	**$89.3**
Total Liabilities and Stockholder's Equity	**$196.3**	**$192.5**	**$185.5**	**$164.4**	**$154.5**	**$150.4**	**$145.6**	**$145.6**	**$145.6**	**$140.4**	**$140.5**	**$142.8**	**$151.7**	**$151.7**	**$141.4**

Source: Company reports, Robert W. Baird & Co.

Please refer to Appendix - Important Disclosures and Analyst Certification.

Appendix - Important Disclosures and Analyst Certification



1 Robert W. Baird & Co. Incorporated makes a market in the securities of ELON.

Robert W. Baird & Co. Incorporated and/or its affiliates expect to receive or intend to seek investment banking related compensation from the company or companies mentioned in this report within the next three months.

Robert W. Baird & Co. Incorporated may not be licensed to execute transactions in all foreign listed securities directly. Transactions in foreign listed securities may be prohibited for residents of the United States. Please contact a Baird representative for more information.

Investment Ratings: Outperform (O) - Expected to outperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months. **Neutral (N)** - Expected to perform in line with the broader U.S. equity market over the next 12 months. **Underperform (U)** - Expected to underperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.

Risk Ratings: L - Lower Risk - Higher-quality companies for investors seeking capital appreciation or income with an emphasis on safety. Company characteristics may include: stable earnings, conservative balance sheets, and an established history of revenue and earnings. A - **Average Risk** - Growth situations for investors seeking capital appreciation with an emphasis on safety. Company characteristics may include: moderate volatility, modest balance-sheet leverage, and stable patterns of revenue and earnings. **H - Higher Risk** - Higher-growth situations appropriate for investors seeking capital appreciation with the acceptance of risk. Company characteristics may include: higher balance-sheet leverage, dynamic business environments, and higher levels of earnings and price volatility. **S - Speculative Risk** - High-growth situations appropriate only for investors willing to accept a high degree of volatility and risk. Company characteristics may include: unpredictable earnings, small capitalization, aggressive growth strategies, rapidly changing market dynamics, high leverage, extreme price volatility and unknown competitive challenges.

Valuation, Ratings and Risks. The recommendation and price target contained within this report are based on a time horizon of 12 months but there is no guarantee the objective will be achieved within the specified time horizon. Price targets are determined by a subjective review of fundamental and/or quantitative factors of the issuer, its industry, and the security type. A variety of methods may be used to determine the value of a security including, but not limited to, discounted cash flow, earnings multiples, peer group comparisons, and sum of the parts. Overall market risk, interest rate risk, and general economic risks impact all securities. Specific information regarding the price target and recommendation is provided in the text of our most recent research report.

Distribution of Investment Ratings. As of April 30, 2012, Baird U.S. Equity Research covered 669 companies, with 53% rated Outperform/Buy, 46% rated Neutral/Hold and 1% rated Underperform/Sell. Within these rating categories, 13% of Outperform/Buy-rated and 7% of Neutral/Hold-rated companies have compensated Baird for investment banking services in the past 12 months and/or Baird managed or co-managed a public offering of securities for these companies in the past 12 months.

Analyst Compensation. Analyst compensation is based on: 1) The correlation between the analyst's recommendations and stock price performance; 2) Ratings and direct feedback from our investing clients, our sales force and from independent rating services; and 3) The analyst's productivity, including the quality of the analyst's research and the analyst's contribution to the growth and development of our overall research effort. This compensation criteria and actual compensation is reviewed and approved on an annual basis by Baird's Research Oversight Committee.

Analyst compensation is derived from all revenue sources of the firm, including revenues from investment banking. Baird does not compensate research analysts based on specific investment banking transactions.

A complete listing of all companies covered by Baird U.S. Equity Research and applicable research disclosures can be accessed at http://www.rwbaird.com/research-insights/research/coverage/research-disclosure.aspx .

You can also call 1-800-792-2473 or write: Robert W. Baird & Co., Equity Research, 24th Floor, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.

Analyst Certification. The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Disclaimers

Baird prohibits analysts from owning stock in companies they cover.

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available.

Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

Other Disclosures

The information and rating included in this report represent the Analyst's long-term (12 month) view as described above. Robert W. Baird & Co. Incorporated and/or its affiliates (Baird) may provide to certain clients additional or research supplemental products or services, such as outlooks, commentaries and other detailed analyses, which focus on covered stocks, companies, industries or sectors. Not all clients who receive our standard company-specific research reports are eligible to receive these additional or supplemental products or services. Baird determines in its sole discretion the clients who will receive additional or supplemental products or services, in light of various factors including the size and scope of the client relationships. These additional or supplemental products or services may feature different analytical or research techniques and information than are contained in Baird's standard research reports. Any ratings and recommendations contained in such additional or research supplemental products are consistent with the Analyst's long-term ratings and recommendations contained in more broadly disseminated standard research reports.

UK disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds an ISD passport.

This report is for distribution into the United Kingdom only to persons who fall within Article 19 or Article 49(2) of the Financial Services and Markets Act 2000 (financial promotion) order 2001 being persons who are investment professionals and may not be distributed to private clients. Issued in the United Kingdom by Robert W. Baird Limited, which has offices at Mint House 77 Mansell Street, London, E1 8AF, and is a company authorized and regulated by the Financial Services Authority. For the purposes of the Financial Services Authority requirements, this investment research report is classified as objective.

Robert W. Baird Limited ("RWBL") is exempt from the requirement to hold an Australian financial services license. RWBL is regulated by the Financial Services Authority ("FSA") under UK laws and those laws may differ from Australian laws. This document has been prepared in accordance with FSA requirements and not Australian laws.

Ask the analyst a question   Click here to unsubscribe