

KOPIN CORP
Form 10-Q
May 08, 2014
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended March 29, 2014

or

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

For the transition period from to
Commission file number 0-19882

KOPIN CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	04-2833935
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

125 North Drive, Westborough, MA	01581-3335
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code: (508) 870-5959	

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 ..

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	..	Accelerated filer	x
Non-accelerated filer	..	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 x

Indicate the number of shares outstanding of each issuer's classes of common stock, as of the latest practicable date.	
Class	Outstanding as of May 2, 2014
Common Stock, par value \$.01	65,966,655

Table of Contents

Kopin Corporation
INDEX

	Page No.
<u>Part I – Financial Information</u>	
Item 1. <u>Condensed Consolidated Financial Statements (Unaudited):</u>	<u>3</u>
Condensed Consolidated Balance Sheets at March 29, 2014 (Unaudited) and December 28, 2013	<u>3</u>
Condensed Consolidated Statements of Operations (Unaudited) for the three months ended March 29, 2014 and March 30, 2013	<u>4</u>
Condensed Consolidated Statements of Comprehensive (Loss) Income (Unaudited) for the three months ended March 29, 2014 and March 30, 2013	<u>5</u>
Condensed Consolidated Statements of Stockholders' Equity (Unaudited) for the three months ended March 29, 2014	<u>6</u>
Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 29, 2014 and March 30, 2013	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>22</u>
Item 4. <u>Controls and Procedures</u>	<u>22</u>
<u>Part II – Other Information</u>	<u>22</u>
Item 1. <u>Legal Proceedings</u>	<u>22</u>
Item 1A. <u>Risk Factors</u>	<u>23</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>23</u>
Item 6. <u>Exhibits</u>	<u>23</u>
<u>Signatures</u>	<u>25</u>

Table of Contents

Part 1: FINANCIAL INFORMATION

Item 1: Condensed Consolidated Financial Statements (Unaudited)

KOPIN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 29, 2014	December 28, 2013
ASSETS		
Current assets:		
Cash and equivalents	\$14,811,610	\$16,756,666
Marketable debt securities, at fair value	91,334,212	95,972,535
Accounts receivable, net of allowance of \$187,000 and \$202,000 in 2014 and 2013, respectively	2,367,728	2,388,461
Inventory	2,361,018	3,078,055
Prepaid taxes	273,587	233,642
Prepaid expenses and other current assets	563,570	1,178,643
Total current assets	111,711,725	119,608,002
Property, plant and equipment, net	5,350,375	6,034,963
Goodwill	1,022,399	1,016,132
Intangible assets, net	1,342,337	1,581,502
Other assets	2,783,726	3,024,458
Notes receivable	14,883,334	14,866,666
Total assets	\$137,093,896	\$146,131,723
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$4,147,886	\$3,868,865
Accrued payroll and expenses	1,384,419	1,436,391
Accrued warranty	716,000	716,000
Billings in excess of revenue earned	665,172	547,681
Other accrued liabilities	2,545,953	3,157,394
Deferred tax liabilities	1,390,761	1,512,771
Total current liabilities	10,850,191	11,239,102
Asset retirement obligations	332,502	329,435
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$.01 per share: authorized, 3,000 shares; none issued	—	—
Common stock, par value \$.01 per share: authorized, 120,000,000 shares; issued 77,976,881 shares in 2014 and 77,567,631 shares in 2013; outstanding 62,525,475 shares in 2014 and 62,560,946 shares in 2013	746,278	745,935
Additional paid-in capital	321,941,313	320,511,458
Treasury stock (12,102,258 and 12,032,537 shares in 2014 and 2013, respectively, at cost)	(42,741,551)	(42,442,932)
Accumulated other comprehensive income	2,801,837	3,441,997
Accumulated deficit	(156,837,627)	(147,703,211)
Total Kopin Corporation stockholders' equity	125,910,250	134,553,247
Noncontrolling interest	953	9,939
Total stockholders' equity	125,911,203	134,563,186

Total liabilities and stockholders' equity	\$ 137,093,896	\$ 146,131,723
--	----------------	----------------

See notes to condensed consolidated financial statements

Table of Contents

KOPIN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended	
	March 29, 2014	March 30, 2013
Revenues:		
Net component revenues	\$4,227,760	\$5,568,023
Research and development revenues	467,010	751,061
	4,694,770	6,319,084
Expenses:		
Cost of component revenues	4,225,449	5,964,409
Research and development	5,086,284	4,247,556
Selling, general and administration	4,996,802	5,749,113
	14,308,535	15,961,078
Loss from operations	(9,613,765	) (9,641,994)
Other income and expense:		
Interest income	238,172	310,437
Other income, net	59,828	(177,168)
Foreign currency transaction gains	181,751	220,708
Impairment of cost based investment	—	(2,485,393)
	479,751	(2,131,416)
Loss before benefit for income taxes, equity loss in unconsolidated affiliate and net (income) loss attributable to noncontrolling interest	(9,134,014	) (11,773,410)
Tax benefit	143,000	13,040,000
(Loss) income before equity loss in unconsolidated affiliate and net (income) loss attributable to noncontrolling interest	(8,991,014	) 1,266,590
Equity loss in unconsolidated affiliate	(102,305	) (99,088)
(Loss) income from continuing operations	(9,093,319	) 1,167,502
Income from discontinued operations, net of tax	—	20,196,888
Net (loss) income	(9,093,319	) 21,364,390
Net (income) loss attributable to the noncontrolling interest	(41,097	) 269,419
Net (loss) income attributable to the controlling interest	\$(9,134,416	) \$21,633,809
Net (loss) income per share		
Basic:		
Continuing operations	\$(0.15	) \$0.02
Discontinued operations	\$—	\$0.32
Net (loss) income per share	\$(0.15	) \$0.34
Diluted:		
Continuing operations	\$(0.15	) \$0.02
Discontinued operations	\$—	\$0.32
Net (loss) income per share	\$(0.15	) \$0.34
Weighted average number of common shares		
Basic	62,530,202	63,935,508
Diluted	62,530,202	63,935,508
See notes to condensed consolidated financial statements		

Table of Contents

KOPIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

	Three months ended	
	March 29, 2014	March 30, 2013
Net (loss) income	\$(9,093,319	) \$21,364,390
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(859,599	) (611,719
Unrealized holding gain on marketable securities	183,441	201,192
Reclassifications of gains in net (loss) income	(14,085	) (3,282
Other comprehensive loss	\$(690,243	) \$(413,809
Comprehensive (loss) income	\$(9,783,562	) \$20,950,581
Comprehensive gain attributable to the noncontrolling interest	8,986	317,179
Comprehensive (loss) income attributable to controlling interest	\$(9,774,576	) \$21,267,760
See notes to condensed consolidated financial statements		

Table of Contents

KOPIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Kopin Corporation Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount							
Balance, December 28, 2013	74,593,483	\$745,935	\$320,511,458	\$(42,442,932)	\$3,441,997	\$(147,703,211)	\$134,553,247	\$9,939	\$144,492,186
Stock-based compensation	—	—	1,301,757	—	—	—	1,301,757	—	1,301,757
Other comprehensive loss	—	—	—	—	(640,160)	—	(640,160)	(50,083)	(690,243)
Exercise of stock options	34,250	343	128,098	—	—	—	128,441	—	128,441
Treasury stock purchases	—	—	—	(298,619)	—	—	(298,619)	—	(298,619)
Net loss	—	—	—	—	—	(9,134,416)	(9,134,416)	41,097	(8,797,729)
Balance, March 29, 2014	74,627,733	\$746,278	\$321,941,313	\$(42,741,551)	\$2,801,837	\$(156,837,627)	\$125,910,250	\$953	\$126,864,203
See notes to condensed consolidated financial statements									

Table of Contents

KOPIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended	
	March 29, 2014	March 30, 2013
Cash flows from operating activities:		
Net (loss) income	\$(9,093,319)	\$21,364,390
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	932,974	1,095,202
Amortization of premium or discount on marketable debt securities	17,300	(29,025)
Stock-based compensation	1,126,957	1,505,832
Loss in unconsolidated affiliate	102,305	99,088
Impairment of cost based investment	—	2,485,393
Gain from sale of III-V product line	—	(33,452,176)
Deferred income taxes	(122,359)	40,700
Foreign currency gains	(157,642)	(201,532)
Change in allowance for bad debt	14,679	(18,508)
Other non-cash items	233,078	189,224
Changes in assets and liabilities:		
Accounts receivable	122,945	3,595,929
Inventory	487,156	1,100,241
Prepaid expenses and other current assets	578,444	288,901
Accounts payable and accrued expenses	(504,810)	(1,177,857)
Billings in excess of revenue earned	117,491	(155,476)
Net cash used in operating activities	(6,144,801)	(3,269,674)
Cash flows from investing activities:		
Proceeds from sale of marketable debt securities	13,267,391	6,604,744
Purchase of marketable debt securities	(8,444,398)	(39,720,697)
Proceeds from sale of III-V product line	—	55,000,000
Purchases of cost based investments	—	(2,750,278)
Other assets	(14,127)	—
Capital expenditures	(444,372)	(307,930)
Net cash provided by investing activities	4,364,494	18,825,839
Cash flows from financing activities:		
Treasury stock purchases	(298,619)	—
Purchase of noncontrolling interest in Kowon	—	(3,662,400)
Proceeds from exercise of stock options	128,441	—
Settlement of restricted stock for tax withholding obligations	—	(11,449)
Net cash used in financing activities	(170,178)	(3,673,849)
Effect of exchange rate changes on cash	5,429	(165,767)
Net (decrease) increase in cash and equivalents	(1,945,056)	11,716,549
Cash and equivalents:		
Beginning of period	16,756,666	27,135,387
End of period	\$14,811,610	\$38,851,936
Supplemental disclosure of cash flow information:		
Income taxes paid	\$57,100	\$113,700
Supplemental schedule of noncash investing activities:		
Construction in progress included in accrued expenses	\$232,000	\$—

Non-cash proceeds from sale of III-V product line	\$—	\$14,800,000
---	-----	--------------

See notes to condensed consolidated financial statements

7

Table of Contents

KOPIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Kopin Corporation, its wholly-owned subsidiaries, Kowon Technology Co., Ltd. (Kowon), a majority owned (93%) subsidiary located in Korea, Ikanos Consulting Ltd. (Ikanos) a majority owned (58%) subsidiary located in the United Kingdom and eMDT America Inc. (eMDT), a majority owned (51%) subsidiary located in California (collectively, the "Company"). Ownership interests of Kowon, Ikanos and eMDT not attributable to the Company are referred to as noncontrolling interests. All intercompany transactions and balances have been eliminated. The condensed consolidated financial statements for the three months ended March 29, 2014 and March 30, 2013 are unaudited and include all adjustments which, in the opinion of management, are necessary to present fairly the results of operations for the periods then ended. These condensed consolidated financial statements should be read in conjunction with the Company's financial statements and notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 28, 2013.

During the first quarter of 2013, the Company paid approximately \$3.7 million to acquire an additional 15% ownership in its Kowon subsidiary from the minority shareholders, as part of the Company's plan to close Kowon. As of March 29, 2014 and December 28, 2013, the sale of the facility does not meet the criteria for assets held for sale based on the anticipated time to sell the facility.

The results of the Company's operations for any interim period are not necessarily indicative of the results of the Company's operations for any other interim period or for a full fiscal year.

During the three months ended March 29, 2014, the change in the Company's accumulated other comprehensive income was the net of \$(0.9) million foreign currency translation adjustment and \$0.2 million unrealized holding gains on marketable securities.

Table of Contents

2. Discontinued Operations

On January 16, 2013 (the Closing Date), the Company sold its III-V product line, including all of the outstanding equity interest in KTC Wireless, LLC, a wholly owned subsidiary of the Company, to IQE KC, LLC and IQE plc pursuant to a Purchase Agreement (the Purchase Agreement) entered into on January 10, 2013, for a net purchase price of \$70.2 million and the gain on the sale, net of tax, was \$20.4 million. Under the terms of the Purchase Agreement, \$55 million was paid to the Company in January 2013, \$0.2 million was paid in April 2013 and the remaining \$15.0 million will be paid to the Company on the third anniversary of the Closing Date. The Company has recorded the \$15.0 million receivable at the discounted value of \$14.8 million, at the date of disposition. The Company is accreting this balance over the three year period.

The operating results of the III-V product line prior to the sale are reported within income from discontinued operations, net of tax, in the consolidated statement of operations.

The following table summarizes the results from discontinued operations (in millions) for the three months ended March 30, 2013:

	March 30, 2013	
Net product and research and development revenues	\$ 2.3	
Loss from discontinued operations before income taxes	(0.2)
Provision for income taxes on discontinued operations	—	
Discontinued operations, net of tax	\$(0.2)
Gain on sale, net of \$13.1 million of tax	20.4	
Income from discontinued operations, net of tax	\$ 20.2	

Table of Contents**3. CASH AND EQUIVALENTS AND MARKETABLE SECURITIES**

The Company considers all highly liquid, short-term debt instruments with original maturities of three months or less to be cash equivalents.

Marketable debt securities consist primarily of certificates of deposit, medium-term corporate debt, and United States government and agency backed securities. The Company classifies these marketable debt securities as available-for-sale in "Marketable Debt Securities". The Company records the amortization of premium and accretion of discount on marketable debt securities in the results of operations.

The Company uses the specific identification method as a basis for determining cost and calculating realized gains and losses with respect to marketable debt securities. The gross gains and losses realized related to sales and maturities of marketable debt securities were not material during the three months ended March 29, 2014 and the year ended December 28, 2013.

Investments in available-for-sale marketable debt securities are as follows at March 29, 2014 and December 28, 2013:

	Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	
	2014	2013	2014	2013	2014	2013	2014	2013
U.S. government and agency backed securities	\$73,883,903	\$68,970,505	\$—	\$—	\$(383,800)	\$(686,113)	\$73,500,103	\$68,284,392
Corporate debt and certificates of deposit	17,883,490	27,767,513	—	—	(49,381)	(79,370)	17,834,109	27,688,143
Total	\$91,767,393	\$96,738,018	\$—	\$—	\$(433,181)	\$(765,483)	\$91,334,212	\$95,972,535

The contractual maturity of the Company's marketable debt securities is as follows at March 29, 2014:

	Less than One year	One to Five years	Greater than Five years	Total
U.S. government and agency backed securities	\$19,652,512	\$43,598,521	\$10,249,070	\$73,500,103
Corporate debt and certificates of deposit	14,382,597	2,467,762	983,750	17,834,109
Total	\$34,035,109	\$46,066,283	\$11,232,820	\$91,334,212

The Company conducts a review of its marketable debt securities on a quarterly basis for the presence of other-than-temporary impairment (OTTI). The Company assesses whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the balance sheet date. Under these circumstances OTTI is considered to have occurred (1) if the Company intends to sell the security before recovery of its amortized cost basis; (2) if it is "more likely than not" the Company will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis.

The Company further estimates the amount of OTTI resulting from a decline in the credit worthiness of the issuer (credit-related OTTI) and the amount of non credit-related OTTI. Noncredit-related OTTI can be caused by such factors as market illiquidity. Credit-related OTTI is recognized in earnings while noncredit-related OTTI on securities not expected to be sold is recognized in other comprehensive loss. The Company did not record an OTTI for the three months ended March 29, 2014 and March 30, 2013.

Table of Contents**4. FAIR VALUE MEASUREMENTS**

Financial instruments are categorized as Level 1, Level 2 or Level 3 based upon the method by which their fair value is computed. An investment is categorized as Level 1 when its fair value is based on unadjusted quoted prices in active markets for identical assets that the Company has the ability to access at the measurement date. An investment is categorized as Level 2 if its fair market value is based on quoted market prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, based on observable inputs such as interest rates, yield curves, or derived from or corroborated by observable market data by correlation or other means. An investment is categorized as Level 3 if its fair value is based on assumptions developed by the Company about what a market participant would use in pricing the assets.

The following table details the fair value measurements of the Company's financial assets:

		Fair Value Measurement March 29, 2014		
		Using:		
		Level 1	Level 2	Level 3
Money Markets, Cash and Equivalents	\$ 14,811,610	\$ 14,811,610	\$—	\$—
U.S. Government Securities	73,500,103	25,013,792	48,486,311	—
Corporate Debt	4,709,186	—	4,709,186	—
Certificates of Deposit	13,124,923	—	13,124,923	—
Vuzix Corporation	1,293,773	1,293,773	—	—
	\$ 107,439,595	\$ 41,119,175	\$ 66,320,420	\$—

		Fair Value Measurement December 28, 2013		
		Using:		
		Level 1	Level 2	Level 3
Money Markets, Cash and Equivalents	\$ 16,756,666	\$ 16,756,666	\$—	\$—
U.S. Government Securities	68,284,392	16,542,003	51,742,389	—
Corporate Debt	12,984,331	—	12,984,331	—
Certificates of Deposit	14,703,812	—	14,703,812	—
Vuzix Corporation	1,433,102	1,433,102	—	—
	\$ 114,162,303	\$ 34,731,771	\$ 79,430,532	\$—

The corporate debt consists of floating rate notes with a maturity that is over multiple years but has interest rates which are reset every three months based on the then current three month London Interbank Offering Rate (three month Libor). The Company determines the fair market values of these corporate debt instruments through the use of a model which incorporates the three month Libor, the credit default swap rate of the issuer and the bid and ask price spread of the same or similar investments which are traded on several markets.

The carrying amounts of cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of their short-term nature. If accrued liabilities were carried at fair value, these would be classified as Level 2 in the fair value hierarchy.

5. INVENTORY

Inventory is stated at the lower of cost (determined on the first-in, first-out) or market and consists of the following at March 29, 2014 and December 28, 2013:

	March 29, 2014	December 28, 2013
Raw materials	\$ 1,330,043	\$ 1,441,569
Work-in-process	811,110	1,003,540
Finished goods	219,865	632,946
	\$ 2,361,018	\$ 3,078,055

Table of Contents**6. NET (LOSS) INCOME PER SHARE**

Basic net (loss) income per share is computed using the weighted average number of shares of common stock outstanding during the period less any non-vested restricted shares. Diluted earnings per common share, if applicable, is calculated using weighted average shares outstanding and contingently issuable shares, less weighted average shares reacquired during the period. The net outstanding shares are adjusted for the dilutive effect of shares issuable upon the assumed conversion of the Company's common stock equivalents, which consist of outstanding stock options and unvested restricted stock units.

Weighted average common shares outstanding used to calculate earnings per share are as follows:

	Three Months Ended	
	March 29, 2014	March 30, 2013
Weighted average common shares outstanding-basic	62,530,202	63,935,508
Stock options and non-vested restricted common stock	—	—
Weighted average common shares outstanding-diluted	62,530,202	63,935,508

The following were not included in weighted average common shares outstanding-diluted because they are anti-dilutive or performance or market conditions had not been met at the end of the period.

	March 29, 2014	March 30, 2013
Non-vested restricted common stock	3,349,148	2,411,048
Stock options	524,600	981,505
Total	3,873,748	3,392,553

Not included in weighted average common shares outstanding-diluted are the warrants to purchase 200,000 shares of the Company's common stock for \$3.49 per share.

7. STOCK-BASED COMPENSATION

The fair value of non-vested restricted common stock awards is generally the market value of the Company's common stock on the date of grant. The non-vested common stock awards require the employee to fulfill certain obligations, including remaining employed by the Company for one, two or four years (the vesting period) and in certain cases also require meeting either performance criteria or the Company's stock achieving a certain price. For non-vested restricted common stock awards which solely require the recipient to remain employed with the Company, the stock compensation expense is amortized over the anticipated service period. For non-vested restricted common stock awards which require the achievement of performance criteria, the Company reviews the probability of achieving the performance goals on a periodic basis. If the Company determines that it is probable that the performance criteria will be achieved, the amount of compensation cost derived for the performance goal is amortized over the service period. If the performance criteria are not met, no compensation cost is recognized and any previously recognized compensation cost is reversed. The Company recognizes compensation costs on a straight-line basis over the requisite service period for time-vested awards.

During the quarter ended March 29, 2014, the 2010 Equity Plan has been amended to increase the number of authorized shares by 1.9 million.

A summary of award activity under the stock option plans as of March 29, 2014 and changes during the three month period is as follows (all options were vested as of March 29, 2014):

Table of Contents

	Three months ended March 29, 2014	
	Shares	Weighted Average Exercise Price
Balance, December 28, 2013	558,850	\$5.09
Options forfeited/canceled	—	—
Options exercised	(34,250)	3.75
Balance, all exercisable, March 29, 2014	524,600	\$5.18

The following table summarizes information about stock options outstanding and exercisable at March 29, 2014:

Range of Exercise Prices	Options Outstanding and Exercisable		
	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$ 3.15—\$ 3.50	130,000	1.00	\$3.49
\$ 3.75—\$ 5.00	294,600	1.00	4.29
\$10.00	100,000	1.00	10.00
	524,600	1.00	\$5.18
Aggregate intrinsic value on March 29, 2014	\$32,950		

The Company has issued warrants to purchase 200,000 shares of the Company's common stock for \$3.49 per share.

Non-Vested Restricted Common Stock

A summary of the activity for non-vested restricted common stock awards as of March 29, 2014 and changes during the three month period is presented below:

	Shares	Weighted Average Grant Fair Value
Balance, December 28, 2013	2,974,148	\$4.25
Granted	375,000	4.44
Forfeited	—	—
Vested	—	—
Balance, March 29, 2014	3,349,148	\$4.27

Included within the non-vested restricted common stock table above is 50,000 awards granted for which the performance conditions have yet to be determined and therefore a grant date has not yet been established for the award. No stock based compensation expense has been recorded relating to this award during the period ended March 29, 2014.

Table of Contents

Stock-Based Compensation

The following table summarizes stock-based compensation expense within each of the categories below as it relates to non-vested restricted common stock awards for the three months ended March 29, 2014 and March 30, 2013 (no tax benefits were recognized):

	Three Months Ended	
	March 29, 2014	March 30, 2013
Cost of component revenues	\$230,333	\$54,103
Research and development	332,463	52,615
Selling, general and administrative	564,161	1,399,114
Total	\$1,126,957	\$1,505,832

Unrecognized compensation expense for non-vested restricted common stock as of March 29, 2014 totaled \$6.9 million and is expected to be recognized over a weighted average period of 2 years.

8. OTHER ASSETS AND NOTE RECEIVABLE

The Company has an approximate 12% ownership interest in KoBrite at March 29, 2014. The Company accounts for its interest using the equity method and at March 29, 2014 the carrying value of the investment was \$1.3 million. One of the Company's directors is a member of the Board of Directors of Bright LED, principal investor of KoBrite. Summarized income statements for KoBrite for the three month periods ended March 29, 2014 and March 30, 2013 are as follows. KoBrite's results are recorded one quarter in arrears and therefore KoBrite's results included in the three month periods ended March 29, 2014 and March 30, 2013 are for the three month periods ended December 28, 2013 and December 29, 2012, respectively.

	Three Months Ended	
	March 29, 2014	March 30, 2013
Revenue	\$877,000	\$1,063,000
Gross margin	(519,000)	(565,000)
Loss from operations	(1,001,000)	(987,000)
Net loss	(872,000)	(844,000)

The Company has recorded a \$14.9 million note receivable resulting from the sale of its III-V product line and its investment in KTC which is due January 16, 2016. The receivable is collateralized by certain assets of the buyer of III-V product line. The buyer has outstanding debt and the repayment of the receivable is subject to the buyer remaining within its debt compliance obligations at the time of repayment.

9. ACQUISITION OF eMDT

In April 2013, the Company acquired 51% of the outstanding stock of eMDT, a private company, for \$400,000. The assets, liabilities and results of operations of eMDT have been consolidated within the Company's financial statements since April 17, 2013. The Company has an option to acquire an additional 25% of the Company for \$200,000. In connection with the acquisition, the Company has preliminarily allocated excess purchase price in the amount of approximately \$400,000 to goodwill.

The unaudited pro forma financial results for the three month period ended March 30, 2013 combine the unaudited historical results of the Company along with the unaudited historical results of eMDT. The results include the effects of unaudited pro forma adjustments as if eMDT were acquired on December 30, 2012 (the first day of the Company's fiscal year 2013). There were no material nonrecurring pro forma adjustments in the calculation of revenue or earnings. The pro forma financial results presented below do not include any anticipated synergies or other expected benefits of the acquisition. These results are presented for informational purposes only and are not necessarily indicative of future operations.

Table of Contents

	March 30, 2013
Revenues	\$6,524,000
Net income	\$21,451,000
10. ACCRUED WARRANTY	
The Company typically warrants its products against defect for 12 months. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded in the period when product is shipped and revenue recognized, and is updated as additional information becomes available. The Company's estimate of future costs to satisfy warranty obligations is based primarily on historical warranty expense experienced and a provision for potential future product failures. Changes in the accrued warranty for the three months ended March 29, 2014 are as follows:	
Balance, December 28, 2013	\$716,000
Additions	143,000
Claim and reversals	(143,000)
Balance, March 29, 2014	\$716,000

11. INCOME TAXES

The Company's tax benefit of approximately \$143,000 for the three months ended March 29, 2014 represents a reduction in estimated foreign withholding taxes due on an international subsidiary. The Company's tax benefit of approximately \$13.0 million for the three months ended March 30, 2013, represents an intraperiod tax allocation related to the Company's discontinued operations.

For the three months ended March 30, 2013, discontinued operations reflects the gain on the sale of the III-V product line and investment in KTC. The Company has federal net operating loss carryforwards which may be used to offset the gain on the sale of the III-V product line and investment in KTC. The federal tax benefit from the utilization of the net operating losses is shown in the Company's tax provision in the condensed consolidated statement of operations.

In accordance with U.S. GAAP, intraperiod tax allocation provisions require allocation of a tax expense to the gain on discontinued operations based upon the Company's statutory tax rate. The Company has net operating loss (NOL) carryforwards available to offset the tax expense. The benefit of these NOLs is reflected in the tax benefit from continuing operations. Accordingly, the Company recorded a tax expense in discontinued operations and a benefit in continuing operations of approximately \$13.0 million in 2013.

As of March 29, 2014, the Company has available for tax purposes U.S. federal NOLs of \$51.0 million expiring through 2033. The Company has recognized a full valuation allowance on its domestic and certain foreign net deferred tax assets due to the uncertainty of realization of such assets. The Company has not historically recorded, nor does it intend to record the tax benefits from stock awards until realized. Unrecorded benefits from stock awards approximate \$10.1 million.

The Company's income tax returns have not been examined by the Internal Revenue Service and are subject to examination for all years since 2002. State income tax returns are generally subject to examination for a period of 3 to 5 years after filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states.

12. SEGMENTS AND GEOGRAPHICAL INFORMATION

The Company's chief operating decision maker is its Chief Executive Officer. The Company has determined it has two reportable segments, FDD, the manufacturer of its reflective display products for test and simulation products, and Kopin, which is comprised of Kopin Corporation, Kowon, Ikanos and eMDT. The following table presents the Company's reportable segment results (in thousands):

Table of Contents

	Three Months Ended March 29, 2014		
	Kopin	FDD	Total
2014			
Revenues	\$ 3,902	\$ 793	\$ 4,695
Net income (loss) attributable to the controlling interest	(8,624	) (510	) (9,134)
Total assets from continuing operations	135,080	2,014	137,094
Long-lived assets from continuing operations	4,927	423	5,350
	Three Months Ended March 30, 2013		
	Kopin	FDD	Total
2013			
Revenues	\$ 5,523	\$	