KOPIN CORP
Form 10-Q
August 09, 2018

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 June 30, 2018
¨ 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨		Accelerated filer	x
Non-accelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes ¨ No x

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Indicate the number of shares outstanding of each issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding as of August 6, 2018
Common Stock, par value $0.01	76,627,503

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Part 1. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)
KOPIN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2018	December 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$22,742,575	$24,848,227
Marketable debt securities, at fair value	30,681,129	43,907,457
Accounts receivable, net of allowance of $353,000 in 2018 and $149,000 in 2017	2,785,081	3,955,123
Contract assets and unbilled receivables	2,384,307	704,863
Inventory	4,257,702	5,080,797
Prepaid taxes	96,983	264,352
Prepaid expenses and other current assets	1,177,022	978,677
Total current assets	64,124,799	79,739,496
Property, plant and equipment, net	5,125,629	5,077,043
Goodwill	1,768,539	1,780,247
Intangible assets, net	441,818	883,636
Other assets	2,173,428	3,842,068
Equity investments	5,708,816	—
Total assets	$79,343,029	$91,322,490
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$3,894,049	$4,918,605
Accrued payroll and expenses	1,722,559	1,636,512
Accrued warranty	615,000	649,000
Contract liabilities and billings in excess of revenue earned	317,094	896,479
Other accrued liabilities	1,716,612	2,066,025
Income tax payable	161,620	1,416,892
Deferred tax liabilities	863,000	520,000
Total current liabilities	9,289,934	12,103,513
Deferred revenue, net of current portion	153,844	374,171
Asset retirement obligations	264,238	269,877
Other long-term obligations	1,785,775	1,195,082
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 81,090,758 shares in 2018 and 80,201,313 shares in 2017; outstanding 73,135,253 shares in 2018 and 73,078,783 shares in 2017	776,485	775,720
Additional paid-in capital	333,794,962	331,119,340
Treasury stock (4,513,256 shares in 2018 and 2017, at cost)	(17,238,669)	(17,238,669)
Accumulated other comprehensive income	3,046,191	3,564,779
Accumulated deficit	(251,839,754)	(240,121,901)
Total Kopin Corporation stockholders' equity	68,539,215	78,099,269

Noncontrolling interest	(689,977)	(719,422)
Total stockholders' equity	67,849,238	77,379,847
Total liabilities and stockholders' equity	$79,343,029	$91,322,490

See notes to unaudited condensed consolidated financial statements

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KOPIN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Revenues:				
Net product revenues	$4,472,079	$4,979,400	$9,516,888	$8,912,543
Research and development revenues	1,471,819	948,069	2,080,630	1,393,054
	5,943,898	5,927,469	11,597,518	10,305,597
Expenses:				
Cost of product revenues	3,497,750	4,117,226	7,559,941	7,234,583
Research and development	4,526,156	4,678,221	8,977,809	8,960,090
Selling, general and administration	6,913,503	5,200,261	13,844,913	10,841,947
	14,937,409	13,995,708	30,382,663	27,036,620
Loss from operations	(8,993,511)	(8,068,239)	(18,785,145)	(16,731,023)
Other income (expense):				
Interest income	165,513	186,142	325,364	419,919
Other income	18,101	65,018	1,119,356	325,430
Foreign currency transaction (losses) gains	(235,776)	556,539	(27,168)	(634,743)
Gain on investments	—	—	2,849,816	274,000
	(52,162)	807,699	4,267,368	384,606
Loss before (provision) benefit for income taxes and net loss (income) attributable to noncontrolling interest	(9,045,673)	(7,260,540)	(14,517,777)	(16,346,417)
Tax (provision) benefit	(201,000)	—	(201,000)	1,146,000
Net loss	(9,246,673)	(7,260,540)	(14,718,777)	(15,200,417)
Net loss (income) attributable to noncontrolling interest	5,716	(71,431)	(58,458)	10,007
Net loss attributable to Kopin Corporation	$(9,240,957)	$(7,331,971)	$(14,777,235)	$(15,190,410)
Net loss per share				
Basic and diluted	$(0.13)	$(0.10)	$(0.20)	$(0.22)
Weighted average number of common shares outstanding				
Basic and diluted	73,095,253	70,626,542	73,086,752	67,582,615

See notes to unaudited condensed consolidated financial statements

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KOPIN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net loss	$(9,246,673)	$(7,260,540)	$(14,718,777)	$(15,200,417)
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(211,217)	(666,343)	(335,697)	931,062
Unrealized holding (losses) gains on marketable securities	(73,262)	149,094	(210,136)	137,780
Reclassification of holding losses (gains) in net loss	2,982	(2,745)	(1,768)	(3,900)
Other comprehensive (loss) income, net of tax	(281,497)	(519,994)	(547,601)	1,064,942
Comprehensive loss	$(9,528,170)	$(7,780,534)	$(15,266,378)	$(14,135,475)
Comprehensive loss (income) attributable to the noncontrolling interest	38,488	(41,680)	(29,445)	16,354
Comprehensive loss attributable to controlling interest	$(9,489,682)	$(7,822,214)	$(15,295,823)	$(14,119,121)

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KOPIN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY
(Unaudited)

	Common Stock							
	Shares	Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Kopin Corporation Stockholders’ Equity	Noncont Interest
Balance, December 30, 2017	77,572,038	$775,720	$331,119,340	$(17,238,669)	$3,564,779	$(240,121,901)	$78,099,269	$(719,42
Stock-based compensation	—	—	2,687,789	—	—	—	2,687,789	—
Vesting of restricted stock	80,000	800	(800)	—	—	—	—	—
Repurchases of restricted stock to satisfy tax withholding obligations	(3,530)	(35)	(11,367)				(11,402)	—
Other comprehensive loss (income)	—	—	—	—	(518,588)	—	(518,588)	(29,013
Adoption of accounting standards (Note 2)	—	—	—	—	—	3,059,382	3,059,382	—
Net loss	—	—	—	—	—	(14,777,235)	(14,777,235)	58,458
Balance, June 30, 2018	77,648,508	$776,485	$333,794,962	$(17,238,669)	$3,046,191	$(251,839,754)	$68,539,215	$(689,97

See notes to unaudited condensed consolidated financial statements

KOPIN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	June 30, 2018	July 1, 2017
Cash flows from operating activities:		
Net loss	$(14,718,777)	$(15,200,417)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,130,169	1,142,506
Stock-based compensation	2,687,789	1,968,128
Foreign currency losses	19,534	656,613
Change in allowance for bad debt	219,937	—
Unrealized gain on investments	(2,849,816)	(274,000)
Deferred income taxes	196,252	(1,169,940)
Other non-cash items	301,499	608,672
Changes in assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	687,986	241,213
Contract assets	1,315,022	—
Inventory	(605,154)	(778,240)
Prepaid expenses and other current assets	113,537	(275,988)
Accounts payable and accrued expenses	(2,018,182)	358,388
Billings in excess of revenue earned	312,352	45,466
Net cash used in operating activities	(13,207,852)	(12,677,599)
Cash flows from investing activities:		
Other assets	(41,966)	(37,296)
Capital expenditures	(740,172)	(1,071,742)
Proceeds from sale of marketable debt securities	13,109,285	24,322,300
Purchase of marketable debt securities	—	(16,812,114)
Cash paid for equity investment	(1,000,000)	—
Cash paid for acquisition, net of cash acquired	—	(3,690,047)
Net cash provided by investing activities	11,327,147	2,711,101
Cash flows from financing activities:		
Sale of unregistered stock	—	24,664,250
Settlements of restricted stock for tax withholding obligations	(11,402)	—
Net cash (used in) provided by financing activities	(11,402)	24,664,250
Effect of exchange rate changes on cash	(213,545)	21,046
Net (decrease) increase in cash and cash equivalents	(2,105,652)	14,718,798
Cash and cash equivalents:		
Beginning of period	24,848,227	15,822,495
End of period	$22,742,575	$30,541,293
Supplemental disclosure of cash flow information:		
Income taxes paid	$1,300,000	$—

See notes to unaudited condensed consolidated financial statements

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KOPIN CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Kopin Corporation (the "Company") as of June 30, 2018 and for the three and six month periods ended June 30, 2018 and July 1, 2017 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 30, 2017. 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. The Company reclassified certain prior period amounts to conform to the current period presentation.

2. ACCOUNTING STANDARDS

Recently Issued Accounting Pronouncements

Leases

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02 (Topic 842) Leases, which requires lessees to recognize a right-of-use asset and lease liability for most lease arrangements. The new standard is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and must be adopted using the modified retrospective approach. The Company intends to adopt the standard on the effective date of December 30, 2018. Interpretations are on-going and could have a material impact on the Company's implementation. Currently, the Company expects that the adoption of the ASU 2016-02 (Topic 842) Leases will have a material impact on its consolidated balance sheet due to the recognition of right-of-use assets and lease liabilities principally for certain leases currently accounted for as operating leases, but we do not expect it to have a material impact on our results of operations or liquidity.

Recently Adopted Accounting Pronouncements

Recognition and Measurement of Financial Assets and Liabilities

The Company adopted ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities and the related amendments on December 31, 2017 (the first day of the Company's fiscal year 2018). This standard amends various aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The Company adopted the measurement alternative for equity investments without readily determinable fair values (often referred to as cost method investments) on a prospective basis. As a result, these investments will be revalued upon occurrence of an observable price change for similar investments and for impairments. The Company expects that the adoption of this guidance may have a material effect on its financial statements on an ongoing basis.

Revenue from Contracts with Customers

The Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) effective December 31, 2017 and applied the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company expects the impact of the adoption of the new standard to be material to the Company's results of operations on an ongoing basis.

Significant Accounting Policies Update

The Company's significant accounting policies are detailed in "Note 1: Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the year ended December 30, 2017. Significant changes to the Company's accounting policies as a result of adopting Topic 606 are discussed below.

Revenue Recognition

Substantially all of our revenues are from orders received from our customers for the purchase of wearable technology components that can be integrated to create headset systems. We also have development contracts for the design, manufacture and modification of products for the U.S. government or a prime contractor for the U.S. government (“U.S. government”) or for a customer that sells into the industrial or consumer markets. The Company's contracts with the U.S. government are typically subject to the Federal Acquisition Regulations (“FAR”) and are priced based on estimated or actual costs of producing goods. The FAR provides guidance on the types of costs that are allowable in establishing prices for goods provided under U.S. government contracts. The pricing for non-U.S. government contracts is based on the specific negotiations with each customer.

Our fixed-price contracts with the U.S. government may result in revenue recognized in excess of amounts actually billed. We disclose the in excess of revenues over amounts actually billed as Contract assets on the balance sheet. Amounts billed and due from our customers are classified as accounts receivable on the balance sheet. In some instances, the U.S. government retains a small portion of the contract price until completion of the contract. The portion of the payments retained until final contract settlement is not considered a significant financing component because the intent is to protect the customer. For contracts with the U.S. government, we typically receive interim payments either as work progresses, we achieve certain milestones or based on a schedule in the contract. We recognize a liability for these advance payments in excess of revenue recognized and present it as billings in excess of revenue earned on the balance sheet. The advanced payment typically is not considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract and to protect us from the other party failing to adequately complete some or all of its obligations under the contract. For industrial and consumer purchase orders, we typically receive payments within 30 to 60 days of shipments of the product, although for some purchase orders, we may require an advanced payment prior to shipment of the product.

To determine the proper revenue recognition method for complex contracts with the same customer, we evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate the combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. For most of our development contracts and contracts with the U.S government, the customer contracts with us to provide a significant service of integrating a set of components into a single unit. Hence, the entire contract is accounted for as one performance obligation. Less common, however, we may promise to provide distinct goods or services within a contract in which case we separate the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. In cases where we sell standard products, the observable standalone sales are used to determine the standalone selling price.

The Company recognizes revenue from a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. For certain contracts that meet the foregoing requirements, primarily international direct commercial and military sale contracts, we recognize revenue once we have obtained all regulatory approvals. Commencing in 2018 for certain contracts with the U.S. government, the Company recognizes revenue over time as we perform because of continuous transfer of control to the customer and the lack of an alternative use for the product. The continuous transfer of control to the customer is supported by liability clauses in the contract that allow the U.S. government to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. For contracts with commercial customers while the contract may have a similar liability clause, our products historically have an alternative use and thus, revenue is recognized at a point in time.

In situations where control transfers over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. We generally use the cost-to-cost approach to measure the extent of progress towards completion of the performance obligation for our contracts because we believe it best depicts the transfer of assets to the customer, which occurs as we incur costs on our contracts. Under the cost-to-cost measure approach, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred.

Accounting for design, development and production contracts requires judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the size and nature of the work required to be performed on many of our contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables. Contract costs include material, labor and subcontracting costs, as well as an allocation of indirect costs. We have to make assumptions regarding the number of labor hours required to complete a task, the complexity of the work to be performed, the availability and cost of materials, and performance by our subcontractors. For contract change orders, claims or similar items, we apply judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable. If our estimate of total contract costs or our determination of whether the customer agrees that a milestone is achieved is incorrect, our revenue could be overstated or understated and the profits or loss reported could be wrong.

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For our commercial customers, the Company's revenue is recognized when obligations under the terms of a contract with our customer is satisfied; generally this occurs with the transfer of control of the Company's products or services. Revenue is recorded as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Provisions for product returns and allowances are recorded in the same period as the related revenues. We analyze historical returns, current economic trends and changes in customer demand and acceptance of product when evaluating the adequacy of sales returns and other allowances. Certain product sales are made to distributors under agreements allowing for a limited right of return on unsold products. Sales to distributors are primarily made for sales to the distributors' customers and not for stocking of inventory. We delay revenue recognition for our estimate of distributor claims of right of return on unsold products based upon our historical experience with our products and specific analysis of amounts subject to return based upon discussions with our distributors or their customers. Sales, value add and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

The rights and benefits to the Company's intellectual property are conveyed to certain customers through technology license agreements. These agreements may include other performance obligations including the sale of product to the customer. When the license is distinct from other obligations in the agreement, the Company treats the license and other performance obligations as separate performance obligations. Accordingly, the license is recognized at a point in time or over time based on the standalone selling price. The sale of materials are recognized at a point in time, which occurs with the transfer of control of the Company's products or services. In certain instances, the Company is entitled to sales-based royalties under license agreements. These sales-based royalties are recognized when they are earned.

The cumulative effect of the changes made to the Company's consolidated December 31, 2017 balance sheet for the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606) was as follows:

Balance Sheet	Balance at December 30, 2017	Adjustments due to Topic 606	Balance at December 31, 2017
Assets			
Contract assets and unbilled receivables	$704,863	$2,850,274	$3,555,137
Inventory	5,080,797	(1,082,629)	3,998,168
Other assets	3,842,068	400,000	4,242,068
Liabilities			
Contract liabilities and billings in excess of revenue earned	1,555,883	(891,737)	664,146
Stockholders’ equity			
Accumulated Deficit	$(240,121,901)	$3,059,382	$(237,062,519)

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In accordance with the new revenue standard requirements, the impact of adoption on the Company's condensed consolidated statement of operations was as follows:

	Three Months Ended June 30, 2018		
Statement of Operations	As Reported	Balances Without Adoption of Topic 606	Effect of Change Higher/(Lower)
Net product revenues	$4,472,079	$4,483,933	$ (11,854)
Research and development revenues	1,471,819	1,558,363	(86,544)
Cost of product revenues	3,497,750	3,495,042	2,708
Net loss attributable to Kopin Corporation	$(9,240,957)	$(9,139,851)	$ (101,106)

	Six Months Ended June 30, 2018		
Statement of Operations	As Reported	Balances Without Adoption of Topic 606	Effect of Change Higher/(Lower)
Net product revenues	$9,516,888	$10,989,276	$ (1,472,388)
Research and development revenues	2,080,630	2,253,718	(173,088)
Cost of product revenues	7,559,941	8,500,121	(940,180)
Net loss attributable to Kopin Corporation	$(14,777,235)	$(14,071,939)	$ (705,296)

See Note 11. Segments and Disaggregation of Revenue for additional information regarding the disaggregation of the Company's revenue by major source and the Company's updated accounting policy for revenue recognition.

Contract Assets

Contract assets include unbilled amounts typically resulting from sales under contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized from customer arrangements, including licensing, exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. Amounts may not exceed their net realizable value. Contract assets are generally classified as current. The Company classifies the noncurrent portion of contract assets under other assets in its condensed consolidated balance sheets.

Contract Liabilities

Contract liabilities consist of advance payments and billings in excess of cost incurred and deferred revenue.

Performance Obligations

The Company's performance obligations that were satisfied at a point in time accounted for 59% and 84% for the three months ended June 30, 2018 and July 1, 2017, respectively, and 63% and 86% for the six months ended June 30, 2018 and July 1, 2017, respectively. The Company's performance obligations that were satisfied at over time accounted for 41% and 16% for the three months ended June 30, 2018 and July 1, 2017, respectively, and 37% and 14% for the six months ended June 30, 2018 and July 1, 2017, respectively.

Remaining performance obligations represent the transaction price of orders for which work has not been performed and excludes unexercised contract options and potential orders under ordering-type contracts (e.g., indefinite-delivery, indefinite-quantity ("IDIQ")). As of June 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was $6.0 million. The Company expects to recognize revenue on the remaining performance obligations of $6.0 million over the next 2 years. The remaining performance obligations represent amounts to be earned under government contracts, which are subject to cancellation.

3. CASH AND CASH 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 commercial paper, medium-term corporate notes, and U.S. government and agency backed securities. The Company classifies these marketable debt securities as available-for-sale at fair

value in “Marketable debt securities, at fair value”. The Company records the amortization of premium and accretion of discounts 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 and six months ended June 30, 2018 and the year ended December 30, 2017.
Investments in available-for-sale marketable debt securities are as follows at June 30, 2018 and December 30, 2017:

	Amortized Cost		Unrealized Losses		Fair Value	
	2018	2017	2018	2017	2018	2017
U.S. government and agency backed securities	$23,827,644	$35,014,593	$(409,130)	$(288,782)	$23,418,514	$34,725,811
Corporate debt	7,268,186	8,988,608	(5,571)	(7,702)	7,262,615	8,980,906
Certificates of deposit	—	201,000	—	(260)	—	200,740
Total	$31,095,830	$44,204,201	$(414,701)	$(296,744)	$30,681,129	$43,907,457

The contractual maturity of the Company’s marketable debt securities is as follows at June 30, 2018:

	Less than One year	One to Five years	Greater than Five years	Total
U.S. government and agency backed securities	$11,991,930	$11,426,584	$ —	$23,418,514
Corporate debt	1,042,161	6,220,454	—	7,262,615
Total	$13,034,091	$17,647,038	$ —	$30,681,129

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 if (1) the Company intends to sell the security before recovery of its amortized cost basis; (2) 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 creditworthiness of the issuer (credit-related OTTI) and the amount of non credit-related OTTI. Non credit-related OTTI can be caused by such factors as market illiquidity. Credit-related OTTI is recognized in earnings while non credit-related OTTI on securities not expected to be sold is recognized in other comprehensive income (loss). The Company did not record OTTI for the three and six months ended June 30, 2018 and July 1, 2017.

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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 June 30, 2018 Using:		
	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	$22,742,575	$22,742,575	$—	$—
U.S. Government Securities	23,418,514	2,997,600	20,420,914	—
Corporate Debt	7,262,615	—	7,262,615	—
GCS Holdings	384,477	384,477	—	—
Equity Investments	5,708,816	—	—	5,708,816
	$59,516,997	$26,124,652	$27,683,529	$5,708,816

		Fair Value Measurement December 30, 2017 Using:		
	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	$24,848,227	$24,848,227	$—	$—
U.S. Government Securities	34,725,811	6,927,323	27,798,488	—
Corporate Debt	8,980,906	—	8,980,906	—
Certificates of Deposit	200,740	—	200,740	—
GCS Holdings	478,546	478,546	—	—
Warrant	2,000,000	—	—	2,000,000
	$71,234,230	$32,254,096	$36,980,134	$2,000,000

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. Changes in Level 3 investments are as follows:

	December 30, 2017	Net unrealized gains/(losses)	Purchases, issuances and settlements	Transfers in and or out of Level 3	June 30, 2018
Equity Investments	$ —	$ (141,000)	$3,900,000	$1,949,816	$5,708,816
Warrant	2,000,000	(50,184)	—	(1,949,816)	—
	$ 2,000,000	$ (191,184)	$3,900,000	$—	$5,708,816

The carrying amounts of cash and 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.

Marketable Debt Securities

The corporate debt consists of floating rate notes with a maturity that is over multiple years but has interest rates that are reset every three months based on the then-current three-month London Interbank Offering Rate (three-month Libor). The Company validates the fair market values of the financial instruments above by using discounted cash flow models, obtaining independent pricing of the securities or through the use of a model that 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.

Warrant

The Company had a warrant to acquire up to 15% of the next round of equity offered by a customer as part of the licensing of technology to the customer. The Company exercised the warrant in April 2018.

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Equity Investments

The Company acquired an interest in an equity investment by transferring $1.0 million cash and certain intellectual property ("IP") in exchange for shares of common stock in the equity investment. The Company used the pricing of the shares being offered to other investors receiving shares of common stock in the same investment as well as a valuation of the IP to determine the value of its equity interest. As the initial value of the equity investment was determined to be $3.9 million and the carrying value of the IP on the Company’s books was zero, the Company recorded a gain of $2.9 million. The Company recorded a $0.1 million unrealized loss in the six months ended June 30, 2018 in this equity investment due to a fluctuation in the foreign exchange rate.

The Company acquired an interest in an equity investment by exercising a warrant to acquire up to 15% of the next round of equity offered by a customer as part of the licensing of technology to the customer. The Company used the customer's capital structure, pricing of the shares being offered and 15% from the customer's qualified financing round in determining the value of its equity investment. The Company recorded an unrealized loss of less than $0.1 million in the six months ended June 30, 2018 in this equity investment due to a change in the Company's estimate of the value of the equity investment based on the observable transaction price at the exercise date of the warrant.

The Company adopted ASU No. 2016-01 and the related amendments on December 31, 2017 (the first day of the Company's fiscal year 2018). This standard amends various aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The Company adopted the measurement alternative for equity investments without readily determinable fair values (often referred to as cost method investments) on a prospective basis. As a result, these investments will be revalued upon occurrence of an observable price change for similar investments and for impairments.

5. INVENTORY

Inventories are stated at standard cost adjusted to approximate the lower of cost (first-in, first-out method) or net realizable value and consist of the following at June 30, 2018 and December 30, 2017:

	June 30, 2018	December 30, 2017
Raw materials	$1,978,510	$ 2,070,153
Work-in-process	1,467,487	1,829,805
Finished goods	811,705	1,180,839
	$4,257,702	$ 5,080,797

6. NET LOSS PER SHARE

Basic net loss per share is computed using the weighted-average number of shares of common stock outstanding during the period less any unvested restricted shares. Diluted net loss per share 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 unvested restricted stock.

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Non-vested restricted common stock	3,442,249	3,048,874	3,442,249	3,048,874

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7. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Non-Vested Restricted Common Stock

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 restricted 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 anticipated service period. If the performance criteria are not met, no compensation cost is recognized and any previously recognized compensation cost is reversed.

Restricted stock activity was as follows:

	Shares	Weighted Average Grant Fair Value
Balance, December 30, 2017	2,629,274	$ 3.31
Granted	1,465,000	2.22
Forfeited	(572,025)	4.12
Vested	(80,000)	3.64
Balance, June 30, 2018	3,442,249	$ 2.71

On December 31, 2017, the Company amended the employment agreement with our CEO, Dr. John Fan, to expire on December 31, 2020 and as part of the amendment issued restricted stock grants. Of the restricted stock grants issued to Dr. Fan, 640,000 shares will vest upon the first 20 consecutive trading day period following the grant date during which the Company's common stock trades at a price equal to or greater than $5.25, 150,000 shares will vest at the end of the first 20 consecutive trading day period following the grant date during which the Company’s common stock trades at a price per share equal to or greater than $6.00, and 150,000 shares will vest at the end of the first 20 consecutive trading day period following the grant date during which the Company’s common stock trades at a price per share equal to or greater than $7.00. All of the grants are subject to certain acceleration events and expire on December 31, 2020. The total fair value of these awards on December 31, 2017 was $1.7 million. The value of restricted stock grants that vest based on market conditions is computed on the date of grant using the Monte Carlo model with the following assumptions:

	For the period ended June 30, 2018		
Performance price target	$5.25	$6.00	$7.00
Expected volatility	48.3 %	48.3 %	48.3 %
Interest rate	1.97 %	1.97 %	1.97 %
Expected life (years)	3	3	3
Dividend yield	— %	— %	— %

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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 and six months ended June 30, 2018 and July 1, 2017 (no tax benefits were recognized):

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Cost of product revenues	$155,925	$159,081	$266,151	$263,174
Research and development	193,767	194,655	468,083	413,213
Selling, general and administrative	938,682	322,287	1,953,555	1,291,741
Total	$1,288,374	$676,023	$2,687,789	$1,968,128

Unrecognized compensation expense for non-vested restricted common stock as of June 30, 2018 totaled $6.1 million and is expected to be recognized over a weighted average period of approximately two years.

8. EQUITY INVESTMENTS

The Company acquired an equity interest in a company in the first quarter of 2018. The Company made a $1.0 million capital contribution during the three months ended June 30, 2018. The Company also contributed certain intellectual property. As of June 30, 2018, the Company owned 12.5% interest in this investment and the carrying value of the Company's investment is $3.9 million. The Company recorded a $0.1 million unrealized loss in the six months ended June 30, 2018 in this equity investment due to a fluctuation in the foreign exchange rate. The fair value of this equity investment is $3.8 million.

The Company acquired an interest in an equity investment by exercising a warrant to acquire up to 15% of the next round of equity offered by a customer as part of the licensing of technology to the customer. The Company used the customer's capital structure, pricing of the shares being offered and 15% from the customer's qualified financing round in determining the value of its equity investment. The fair value of this equity investment is $1.9 million.

The Company adopted the measurement alternative for equity investments without readily determinable fair values (often referred to as cost method investments) on a prospective basis. As a result, these investments will be revalued upon occurrence of an observable price change for similar investments and for impairments. The Company did not have an observable price change for similar investments of its equity investments and recorded no impairments on its equity investments as of June 30, 2018.

9. ACCRUED WARRANTY

The Company typically warrants its products against defect for 12 to 15 months, however, for certain products a customer may purchase an extended warranty. A provision for estimated future costs and estimated returns for credit relating to such 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 six months ended June 30, 2018 are as follows:

Balance, December 30, 2017	$649,000
Additions	82,000
Claims	(116,000)
Balance, June 30, 2018	$615,000

Extended Warranties

Deferred revenue represents the purchase of extended warranties by the Company's customers. The Company recognizes revenue from an extended warranty on the straight-line method over the life of the extended warranty, which is typically 12 to 15 months beyond the standard 12-month warranty. The Company classifies the current portion of deferred revenue under other accrued liabilities in its condensed consolidated balance sheets. The Company currently has $0.6 million of deferred revenue related to extended warranties.

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10. INCOME TAXES

The Company recorded a tax provision of approximately $0.2 million for the three months and six months ended June 30, 2018, which represents an increase in deferred tax liabilities for estimated withholding taxes on future repatriation of unremitted foreign earnings of the Company's Korean subsidiary. The Company’s tax benefit of approximately $1.1 million for the six months ended July 1, 2017, represents the net benefit of $0.1 million for foreign income taxes including loss carryback to 2016, uncertain tax positions and a benefit for the net reduction in estimated foreign withholding. In addition, as a result of the acquisition of NVIS, Inc. in the first quarter of 2017, we recognized $1.0 million of deferred tax liabilities which provided evidence of recoverability of our net deferred tax assets that previously carried a full valuation allowance. We reduced the valuation allowance on our net deferred tax assets in the amount of $1.0 million and such reduction was recognized as a benefit for income taxes for the six months ended July 1, 2017. As of June 30, 2018, the Company has available for tax purposes U.S. federal NOLs of approximately $174.0 million expiring 2022 through 2037. 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. Ownership changes, as defined by the Internal Revenue Code, may substantially limit the amount of net operating loss carryforwards that can be utilized annually to offset future taxable income. The ownership change in 2017 did not result in an annual net operating loss limitation as the acquired entity was an S Corporation and did not have loss carryforwards. Subsequent ownership changes could affect the limitation in future years. Such annual limitations could result in the expiration of net operating loss and tax credit carryforwards before utilization.

The tax years 2001 through 2016 remain open to examination by major taxing jurisdictions to which the Company is subject to United States federal tax. These periods have carryforward attributes generated in years past that may still be adjusted upon examination by the Internal Revenue Service or state tax authorities if they have or will be used in a future period. State statutes are generally shorter with shorter carryforward periods. The Company is currently not under examination by the Internal Revenue Service and is currently under examination by Massachusetts for the 2013 tax year. The Company recognizes both accrued interest and penalties related to its uncertain tax positions related to intercompany loan interest and potential transfer pricing exposure related to its Korean subsidiary.

The Company is in the process of dissolving its Korean subsidiary and repatriating the unremitted earnings of its Korean subsidiary. As such, it accrues U.S. tax for the possible future repatriation of these unremitted foreign earnings. If the Company were to repatriate these earnings, it expects to have foreign withholding at a rate of 16.5% and does not expect any taxes to be paid in the U.S when repatriated as it currently is expected to be a return of capital.

11. GOODWILL AND INTANGIBLES

A rollforward of the Company's goodwill by segment is as follows:

	Kopin	Industrial	Total
Balance, December 30, 2017	$891,683	$888,564	$1,780,247
Change due to exchange rate fluctuations	(11,708)	—	(11,708)
Balance, March 31, 2018	$879,975	$888,564	$1,768,539

The Company recognized $0.2 million of amortization expense for the three months ended June 30, 2018 and July 1, 2017 and $0.4 million and $0.6 million of amortization expense for the six months ended June 30, 2018 and July 1, 2017, respectively, related to intangible assets. At June 30, 2018 and December 30, 2017, the Company's intangible assets include customer relationships, developed technology and a trade name, which had a total carrying value of $2.5 million, total accumulated amortization of $2.1 million and $1.6 million, respectively, and a total net book value of $0.4 million and $0.9 million, respectively. The intangibles have a remaining life of less than 1 year as of June 30, 2018.

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12. CONTRACT ASSETS AND LIABILITIES

Net contract assets (liabilities) consisted of the following:

	June 30, 2018	December 30, 2017	$ Change	% Change
Contract assets—current	$2,384,307	$ 704,863	$1,679,444	238 %
Contract assets—noncurrent	400,000	—	400,000	— %
Contract liabilities—current	(783,926)	(1,181,712)	397,786	(34)%
Contract liabilities—noncurrent	(153,844)	(374,171)	220,327	(59)%
Net contract assets (liabilities)	$1,846,537	$ (851,020)	$2,697,557	(317)%

The $2.7 million increase in the Company's net contract assets (liabilities) from December 30, 2017 to June 30, 2018 was primarily due to the adoption of Topic 606.

In the three and six months ended June 30, 2018, the Company recognized revenue of less than $0.1 million related to our contract liabilities at December 31, 2017. In the three and six months ended July 1, 2017, the Company recognized revenue of $0.1 million and $0.2 million, respectively, related to our contract liabilities at January 1, 2017.

The Company did not recognize impairment losses on our contract assets in the three and six months ended June 30, 2018 and July 1, 2017.

13. SEGMENTS AND DISAGGREGATION OF REVENUE

The Company’s chief operating decision maker is its Chief Executive Officer. The Company has determined it has two reportable segments, Industrial, which includes the operations that develop and manufacture its reflective display products and virtual reality systems for test and simulation products, and Kopin, which includes the operations that develop and manufacture its other products.

As noted in Note 2. Accounting Standards, effective December 31, 2017, the Company adopted the requirements of Topic 606 using the modified retrospective method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

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Segment financial results were as follows:

	Three Months Ended		Six Months Ended
Total Revenue (in thousands)	June 30, 2018	July 1, 2017	June 30, 2018