

EMAGIN CORP
Form 10-Q
November 08, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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 001-15751

eMAGIN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 56-1764501
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

700 South Drive, Suite 201, Hopewell Junction, NY 12533

(Address of principal executive offices) (Zip Code)

(845) 838-7900

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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
company

Accelerated filer

Non-accelerated filer

Smaller reporting

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 45,161,273 shares of common stock, \$0.001 par value, were outstanding as of October 31, 2018.

eMagin Corporation

Form 10-Q

For the Quarter ended September 30, 2018

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STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q, or Report, contains forward-looking statements that are based on our management's belief and assumptions and on information currently available to our management. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue" or the negative of these other comparable terminology. These statements are only predictions. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect our results. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed in the sections entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018, and in this Quarterly Report on Form 10-Q. If one or more of these risks or uncertainties occur, or if our underlying assumptions prove to be incorrect, actual events or results may vary significantly from those implied or projected by the forward-looking statements. No forward-looking statement is a guarantee of future performance. You should read this Report and the documents that we reference in this Report and have filed with the Securities and Exchange Commission, or the SEC, as exhibits to this Report, completely and with the understanding that our actual future results may be materially different from any future results expressed or implied by these forward-looking statements.

In particular, forward-looking statements in this Report include statements about:

- Our ability to successfully develop and market our products to customers;
- Our ability to generate customer demand for our products in our target markets;
- The development of our target markets and market opportunities, including the consumer market;
- The rate of acceptance of VR/AR systems and products in the consumer and commercial marketplace;
- Our potential exposure to product liability claims;
- Our ability to manufacture our products at a competitive cost;
- Our ability to successfully implement new equipment on our manufacturing line;
- Market pricing for our products and for competing products;
- Increasing competition;
- Provisions in certain of our commercial agreements and our military business that may prevent or delay an acquisition of, partnership with, or investment in, our Company and our ability to develop original equipment manufacturer ("OEM") and mass production partnerships;
- Technological developments in our target markets and the development of alternate, competing technologies in them;
- Our anticipated cash needs and our estimates regarding our capital requirements;
- Our needs for additional financing, as well as our ability to obtain such additional financing on reasonable terms and the interest rate and expense we incur on any debt financing; and
- Our efforts to sell or otherwise dispose of our consumer night vision business.

The forward-looking statements in this Report represent our views as of the date of this Report. We anticipate that subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. Therefore, these forward-looking statements do not represent our views as of any date other than the date of this Report.

In this Report, references to “eMagin Corporation,” “eMagin,” “the Company,” “we,” “us,” and “our company” refer to eMagin Corporation and our wholly owned subsidiary, Virtual Vision, Inc. References to “Consumer Night Vision Business” refers to our consumer night vision products business.

ITEM 1. Condensed Consolidated Financial Statements

eMAGIN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,190	\$ 3,526
Accounts receivable, net	4,381	4,528
Unbilled accounts receivable	364	406
Inventories	8,719	8,640
Prepaid expenses and other current assets	869	1,328
Total current assets	20,523	18,428
Equipment, furniture and leasehold improvements, net	8,567	8,553
Intangibles and other assets	314	326
Total assets	\$ 29,404	\$ 27,307
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,996	\$ 1,714
Accrued compensation	1,436	1,557
Revolving credit facility, net	—	3,808
Common stock warrant liability	3,303	784
Other accrued expenses	1,909	719
Deferred revenue	41	765
Other current liabilities	389	469
Total current liabilities	9,074	9,816
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, \$.001 par value: authorized 10,000,000 shares:		
Series B Convertible Preferred stock, (liquidation preference of \$5,659) stated value \$1,000 per share, \$.001 par value: 10,000 shares designated and 5,659 issued and outstanding as of September 30, 2018 and December 31, 2017	—	—
Common stock, \$.001 par value: authorized 200,000,000 shares, issued 45,323,339 shares, outstanding 45,161,273 shares as of September 30, 2018 and issued	45	35

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35,182,589 shares, outstanding 35,020,523 shares as of December 31, 2017		
Additional paid-in capital	254,638	244,726
Accumulated deficit	(233,853)	(226,770)
Treasury stock, 162,066 shares as of September 30, 2018 and December 31, 2017	(500)	(500)
Total shareholders' equity	20,330	17,491
Total liabilities and shareholders' equity	\$ 29,404	\$ 27,307

See notes to Condensed Consolidated Financial Statements.

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eMAGIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Product	\$ 6,048	\$ 4,014	\$ 18,127	\$ 13,050
Contract	819	266	2,673	2,559
Total revenues, net	6,867	4,280	20,800	15,609
Cost of revenues:				
Product	3,926	3,802	12,256	10,918
Contract	562	200	1,389	1,346
Impairment of Consumer Night Vision Business inventory	—	—	2,690	—
Total cost of revenues	4,488	4,002	16,335	12,264
Gross profit	2,379	278	4,465	3,345
Operating expenses:				
Research and development	1,590	1,271	4,941	3,782
Selling, general and administrative	2,039	1,970	6,982	6,586
Total operating expenses	3,629	3,241	11,923	10,368
Loss from operations	(1,250)	(2,963)	(7,458)	(7,023)
Other income (expense):				
Change in fair value of common stock warrant liability	1,311	—	387	—
Interest income (expense), net	1	(27)	(12)	(249)
Other income (expense), net	1	(2)	—	11
Total other income (expense)	1,313	(29)	375	(238)
Income (loss) before provision for income taxes	63	(2,992)	(7,083)	(7,261)
(Provision) benefit for income taxes	—	—	—	—
Net income (loss)	\$ 63	\$ (2,992)	\$ (7,083)	\$ (7,261)
Less net income allocated to participating securities	9	—	—	—
Net income (loss) allocated to common shares	\$ 54	\$ (2,992)	\$ (7,083)	\$ (7,261)

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Loss per share, basic	\$ 0.00	\$ (0.09)	\$ (0.16)	\$ (0.22)
Loss per share, diluted	\$ 0.00	\$ (0.09)	\$ (0.16)	\$ (0.22)

Weighted average number of shares outstanding:

Basic	45,149,717	34,972,589	44,182,379	33,214,262
Diluted	45,265,370	34,972,589	44,182,379	33,214,262

See notes to Condensed Consolidated Financial Statements.

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eMAGIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$ (7,083)	\$ (7,261)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,482	1,588
Change in fair value of common stock warrant liability	(387)	—
Impairment of Consumer Night Vision Business inventory	2,690	—
Impairment of Consumer Night Vision Business tooling	76	—
Stock-based compensation	512	520
Changes in operating assets and liabilities:		
Accounts receivable	147	(594)
Unbilled accounts receivable	42	926
Inventories	(1,349)	(1,645)
Prepaid expenses and other current assets	55	(92)
Deferred revenues	(724)	543
Accounts payable, accrued expenses, and other current liabilities	164	(895)
Net cash used in operating activities	(4,375)	(6,910)
Cash flows from investing activities:		
Purchase of equipment	(1,469)	(1,157)
Net cash used in investing activities	(1,469)	(1,157)
Cash flows from financing activities:		
Repayments under revolving line of credit, net	(3,808)	(932)
Proceeds from public offering, net	12,172	5,811
Payments of debt issuance costs	—	(158)
Proceeds from warrant exercise, net	46	—
Proceeds from exercise of stock options	98	69
Net cash provided by financing activities	8,508	4,790
Net increase (decrease) in cash and cash equivalents	2,664	(3,277)
Cash and cash equivalents, beginning of period	3,526	5,241
Cash and cash equivalents, end of period	\$ 6,190	\$ 1,964
Cash paid for interest	\$ 44	\$ 65
Cash paid for income taxes	\$ —	\$ —

See notes to Condensed Consolidated Financial Statements.

eMAGIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1: Summary of Significant Accounting Policies

The Business

eMagin Corporation (the “Company”) designs, develops, manufactures, and markets OLED (organic light emitting diode)–on-silicon microdisplays and virtual imaging products which utilize OLED microdisplays. The Company’s products are sold mainly in North America, Asia, and Europe.

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of eMagin Corporation and its subsidiary reflect all adjustments, including normal recurring accruals, necessary for a fair presentation. All significant intercompany balances and transactions have been eliminated in consolidation. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the Securities and Exchange Commission. The Company believes that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited condensed consolidated financial statements are read in conjunction with the audited consolidated financial statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for the period ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year. The consolidated condensed financial statements as of December 31, 2017 are derived from audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Use of estimates

In accordance with accounting principles generally accepted in the United States of America, management utilizes certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments related to, among others, allowance for doubtful accounts, warranty reserves, inventory reserves, stock-based compensation expense, deferred tax asset valuation allowances,

litigation and other loss contingencies. Management bases its estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Reclassifications

Certain immaterial prior period amounts have been reclassified to conform to current period presentation with no impact on previously reported net income, assets or shareholders' equity.

Intangible Assets – Patents

Acquired patents are recorded at purchase price as of the date acquired and amortized over the expected useful life which is generally the remaining life of the patent.

The total intangible amortization expense was approximately \$13 thousand and \$27 thousand for the three and nine month periods ended September 30, 2018 and 2017, respectively. Estimated future amortization expense as of September 30, 2018 is as follows (in thousands):

Fiscal Years Ending December 31,	Total Amortization (unaudited)
2018 (three months remaining)	\$ 13
2019	32
2020	9
2021	8
2022	8
Later years	24
	\$ 94

Product warranty

The Company generally offers a one-year product replacement warranty. The standard policy is to repair or replace the defective products. The Company accrues for estimated returns of defective products at the time revenue is recognized based on historical activity as well as for specific known product issues. The determination of these accruals requires the Company to make estimates of the frequency and extent of warranty activity and estimate future costs to replace the products under warranty. If the actual warranty activity and/or repair and replacement costs differ significantly from these estimates, adjustments to cost of revenue may be required in future periods.

The following table provides a summary of the activity related to the Company's warranty liability included in other current liabilities, (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	(unaudited)		(unaudited)	
Beginning balance	\$ 382	\$ 609	\$ 468	\$ 584
Warranty accruals and adjustments	39	19	20	135
Warranty claims	(35)	(39)	(102)	(130)
Ending balance	\$ 386	\$ 589	\$ 386	\$ 589

Net Loss per Common Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period, and excludes any dilutive effects of common stock equivalent shares such as stock options, warrants, and convertible preferred stock. Diluted loss per share is computed using the weighted average number of common shares outstanding and potentially dilutive common stock equivalent shares outstanding during the period. Common stock equivalent shares are excluded from the computation if their effect is anti-dilutive.

The Company's Series B Convertible Preferred stock ("Preferred Stock – Series B") is considered a participating security as the preferred stock participates in dividends with the common stock, which requires the use of the two-class method when computing basic and diluted earnings per share. The Preferred Stock – Series B is not required to absorb any net loss. Although the Company paid a one-time special dividend in 2012, the Company does not expect to pay dividends on its common or preferred stock in the near future.

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The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share and share data) for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
	(unaudited)		(unaudited)	
Net income (loss)	\$ 63	\$ (2,992)	\$ (7,083)	\$ (7,261)
Income allocated to participating securities	9	—	—	—
Income (loss) allocated to common shares	\$ 54	\$ (2,992)	\$ (7,083)	\$ (7,261)
Weighted average common shares outstanding				
- Basic	45,149,717	34,972,589	44,182,379	33,214,262
Dilutive effect of stock options	115,653	—	—	—