

KOPIN CORP
Form 10-Q
August 09, 2012
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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, 2012

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)

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Delaware	04-2833935
State or other jurisdiction of	(I.R.S. Employer
incorporation or organization	Identification No.)
200 John Hancock Rd., Taunton, MA	02780-1042
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code: (508) 824-6696	

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 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 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
 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

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 3, 2012
Common Stock, par value \$.01	66,303,812

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Kopin Corporation

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Table of Contents**Part 1: FINANCIAL INFORMATION****Item 1: Condensed Consolidated Financial Statements (Unaudited)
KOPIN CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and equivalents	\$ 31,160,196	\$ 43,095,163
Marketable debt securities, at fair value	65,166,873	62,323,387
Accounts receivable, net of allowance of \$389,000 and \$513,000 in 2012 and 2011, respectively	12,417,196	16,510,851
Accounts receivable from unconsolidated affiliates	2,036,859	1,340,788
Unbilled receivables	457,601	36,115
Inventory	19,913,736	20,468,512
Prepaid taxes	631,199	667,759
Prepaid expenses and other current assets	1,267,288	1,294,368
Total current assets	133,050,948	145,736,943
Property, plant and equipment, net	32,962,113	32,369,441
Deferred tax assets, net	3,620,257	4,201,627
Goodwill		1,664,457
Intangible assets, net	1,833,094	1,953,660
Other assets	10,471,571	7,946,087
Total assets	\$ 181,937,983	\$ 193,872,215
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 8,800,613	\$ 12,384,869
Accrued payroll and expenses	3,074,176	4,182,505
Accrued warranty	1,031,000	1,318,000
Billings in excess of revenue earned	2,417,461	2,467,461
Other accrued liabilities	3,492,389	2,126,954
Total current liabilities	18,815,639	22,479,789
Asset retirement obligations	1,182,374	1,295,670
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 76,164,951 shares in 2012 and 76,123,940 shares in 2011; outstanding 63,415,349 shares in 2012 and 64,361,491 shares in 2011	732,765	732,263
Additional paid-in capital	317,551,126	315,710,160
Treasury stock (9,861,139 and 8,864,767 shares in 2012 and 2011, respectively, at cost)	(34,450,978)	(30,995,449)
Accumulated other comprehensive income	5,178,857	4,146,024
Accumulated deficit	(132,408,520)	(124,631,665)

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Total Kopin Corporation stockholders' equity	156,603,250	164,961,333
Noncontrolling interest	5,336,720	5,135,423
Total stockholders' equity	161,939,970	170,096,756
Total liabilities and stockholders' equity	\$ 181,937,983	\$ 193,872,215

See notes to condensed consolidated financial statements.

Table of Contents**KOPIN CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 25, 2011	June 30, 2012	June 25, 2011
Revenues:				
Net product revenues	\$ 21,781,518	\$ 29,597,668	\$ 46,436,312	\$ 62,518,659
Research and development revenues	1,066,519	1,833,289	1,659,210	3,846,790
	22,848,037	31,430,957	48,095,522	66,365,449
Expenses:				
Cost of product revenues	15,919,471	19,115,190	33,880,204	41,061,802
Research and development	4,991,145	7,139,559	10,120,141	13,524,308
Selling, general and administration	5,025,467	4,697,648	10,123,175	9,142,794
Impairment of goodwill	1,704,770		1,704,770	
	27,640,853	30,952,397	55,828,290	63,728,904
(Loss) income from operations	(4,792,816)	478,560	(7,732,768)	2,636,545
Other income and expense:				
Interest income	294,782	365,611	528,337	629,303
Other income (expense), net	88,463	33,316	141,243	(241)
Foreign currency transaction gains (losses)	67,684	(347,077)	(130,660)	(638,036)
Gain on sale of investments		368,641	856,170	368,641
Gain on sale of patents				155,658
	450,929	420,491	1,395,090	515,325
(Loss) income before provision for income taxes, equity losses in unconsolidated affiliates and net (income) loss attributable to noncontrolling interest	(4,341,887)	899,051	(6,337,678)	3,151,870
Tax provision	(549,000)	(97,500)	(865,000)	(195,500)
(Loss) income before equity loss in unconsolidated affiliate and net (income) loss of noncontrolling interest	(4,890,887)	801,551	(7,202,678)	2,956,370
Equity losses in unconsolidated affiliates	(233,907)	(43,599)	(390,202)	(154,238)
Net (loss) income	(5,124,794)	757,952	(7,592,880)	2,802,132
Net (income) loss attributable to the noncontrolling interest	(72,738)	43,872	(183,975)	65,399
Net (loss) income attributable to the controlling interest	\$ (5,197,532)	\$ 801,824	\$ (7,776,855)	\$ 2,867,531
Net (loss) income per share				
Basic	\$ (0.08)	\$ 0.01	\$ (0.12)	\$ 0.04
Diluted	\$ (0.08)	\$ 0.01	\$ (0.12)	\$ 0.04
Weighted average number of common shares				

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Basic	63,078,510	64,528,623	63,651,983	64,632,732
Diluted	63,078,510	65,774,967	63,651,983	65,715,021

See notes to condensed consolidated financial statements

Table of Contents**KOPIN CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 25, 2011	June 30, 2012	June 25, 2011
Net (loss) income	\$ (5,124,794)	757,952	\$ (7,592,880)	\$ 2,802,132
Foreign currency translation adjustments	(829,709)	739,806	223,845	1,084,671
Holding (loss) gain on marketable securities	(208,712)	(716,282)	1,370,669	(393,095)
Reclassifications of gains in net (loss) income	(48,700)	(411,510)	(544,359)	(428,469)
Comprehensive (loss) income	\$ (6,211,915)	\$ 369,966	\$ (6,542,725)	\$ 3,065,239
Comprehensive loss (income) attributable to the noncontrolling interest	50,125	(96,573)	(201,297)	(77,919)
Comprehensive (loss) income attributable to controlling interest	\$ (6,161,790)	\$ 273,393	\$ (6,744,022)	\$ 2,987,320

See notes to condensed consolidated financial statements

Table of Contents**KOPIN CORPORATION****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(Unaudited)

	Common Stock		Additional	Treasury	Accumulated	Accumulated	Total Kopin	Noncontrolling	Total
	Shares	Amount	Paid-in	Stock	Other	Deficit	Corporation	interest	Stockholders
			Capital		Comprehensive		Stockholders		Equity
					Income		Equity		Equity
Balance									
December 31, 2011	73,226,258	\$ 732,263	\$ 315,710,160	\$ (30,995,449)	\$ 4,146,024	\$ (124,631,665)	\$ 164,961,333	\$ 5,135,423	\$ 170,096,756
Stock-based compensation expense			1,938,385				1,938,385		1,938,385
Vesting of restricted stock	78,000	780	(780)						
Net unrealized holding gain on marketable securities					826,310		826,310		826,310
Foreign currency translation adjustments					206,523		206,523	17,322	223,845
Restricted stock for tax withholdings	(27,770)	(278)	(96,639)				(96,917)		(96,917)
Treasury stock purchase				(3,455,529)			(3,455,529)		(3,455,529)
Net loss						(7,776,855)	(7,776,855)	183,975	(7,592,880)
Balance									
June 30, 2012	73,276,488	\$ 732,765	\$ 317,551,126	\$ (34,450,978)	\$ 5,178,857	\$ (132,408,520)	\$ 156,603,250	\$ 5,336,720	\$ 161,939,970

See notes to condensed consolidated financial statements.

Table of Contents**KOPIN CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Six Months Ended	
	June 30, 2012	June 25, 2011
Cash flows from operating activities:		
Net (loss) income	\$ (7,592,880)	\$ 2,802,132
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	5,132,790	3,812,998
Amortization of premium or discount on marketable debt securities	(142,119)	(82,219)
Stock-based compensation	2,223,828	1,470,524
Net gain on sale of investments	(856,170)	(368,641)
Losses in unconsolidated affiliates	390,202	154,238
Impairment of goodwill	1,704,770	
Deferred income tax asset	581,370	
Foreign currency losses	98,441	575,580
Change in allowance for bad debt	(124,976)	(360,375)
Change in inventory reserves	547,318	271,636
Change in warranty reserves	(300,000)	
Changes in assets and liabilities:		
Accounts receivable	3,061,759	(2,065,893)
Inventory	29,185	2,786,195
Prepaid expenses and other current assets	69,014	210,907
Accounts payable and accrued expenses	(3,538,983)	(5,069,743)
Billings in excess of revenue earned	(50,000)	(606,121)
Net cash provided by operating activities	1,233,549	3,531,218
Cash flows from investing activities:		
Proceeds from sale of marketable debt securities	17,579,205	14,997,567
Purchase of marketable debt securities	(20,275,585)	(19,854,118)
Cash paid to acquire FDD, net of cash acquired	94,351	(10,084,307)
Purchase of investments	(2,249,784)	
Proceeds from sale of investments	856,170	392,196
Other assets	73,189	(19,655)
Capital expenditures	(5,748,450)	(3,865,205)
Net cash used in investing activities	(9,670,904)	(18,433,522)
Cash flows from financing activities:		
Treasury stock purchases	(3,455,529)	(1,907,324)
Proceeds from exercise of stock options		72,445
Settlements of restricted stock for tax withholding obligations	(96,917)	(63,069)
Net cash used in financing activities	(3,552,446)	(1,897,948)
Effect of exchange rate changes on cash	54,834	136,116

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Net decrease in cash and equivalents	(11,934,967)	(16,664,136)
Cash and equivalents:		
Beginning of period	43,095,163	49,834,547
End of period	\$ 31,160,196	\$ 33,170,411
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 197,000	\$ 139,000
Supplemental schedule of noncash investing activities:		
Construction in progress included in accrued expenses	\$ 361,000	\$ 995,000

See notes to condensed consolidated financial statements.

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 (78%) subsidiary located in Korea and Kopin Taiwan Corporation (KTC), a majority owned (90%) subsidiary located in Taiwan (collectively the Company or we). Ownership interests of Kowon and KTC 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 and six months ended June 30, 2012 and June 25, 2011 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 31, 2011.

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.

Immaterial Restatement

During the second quarter of 2012, the Company identified an error in the calculation of intercompany profit elimination in inventory for prior periods. While the Company believes the correction of this error is not material to its previously issued historical consolidated financial statements, the Company has restated certain balances within the condensed consolidated balance sheet as of December 31, 2011 to correct this error. The condensed consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2012 and condensed consolidated statements of cash flows for the six months ended June 30, 2012 were not impacted by this error.

The effects of this restatement on the consolidated balance sheet as of December 31, 2011 are as follows (in thousands):

Balance Sheet Data	December 31, 2011		December 31, 2011 as restated
	as previously reported	Adjustment	
ASSETS			
Current assets:			
Cash and equivalents	\$ 43,095	\$	\$ 43,095
Marketable debt securities, at fair value	62,323		62,323
Accounts receivable, net of allowance of \$513,000 in 2011	16,511		16,511
Accounts receivable from unconsolidated affiliates	1,341		1,341
Unbilled receivable	36		36
Inventory	21,416	(947)	20,469
Prepaid taxes	412	256	668
Prepaid expenses and other current assets	1,294		1,294
Total current assets	146,428	(691)	145,737
Property, plant & equipment, net	32,369		32,369
Deferred tax assets	4,202		4,202
Goodwill	1,665		1,665
Intangible assets	1,954		1,954
Other assets	7,946		7,946
Total assets	\$ 194,564	\$ (691)	\$ 193,873

LIABILITIES AND STOCKHOLDERS' EQUITY

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Current Liabilities:			
Accounts payable	\$	12,385	\$ 12,385
Accrued payroll and expenses		4,183	4,183
Accrued warranty		1,318	1,318
Billings in excess of revenue earned		2,467	2,467

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Balance Sheet Data	December 31, 2011		December 31, 2011 as restated
	as previously reported	Adjustment	
Other accrued liabilities	2,127		2,127
Total current liabilities	22,480		22,480
Asset Retirement obligations	1,296		1,296
Commitments and contingencies			
Stockholders' equity:			
Preferred stock			
Common stock	732		732
Additional paid-in capital	315,710		315,710
Treasury stock	(30,995)		(30,995)
Accumulated other comprehensive income	4,146		4,146
Accumulated deficit	(124,008)	(623)	(124,631)
Total Kopin Corporation stockholders' equity	165,585	(623)	164,962
Non controlling interest	5,203	(68)	5,135
Total stockholder equity	170,788	(691)	170,097
Total liabilities and stockholders' equity	\$ 194,564	\$ (691)	\$ 193,873

2. 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 commercial paper, medium-term corporate notes, and United States government and agency backed securities. The Company classifies these marketable debt securities as available-for-sale in Marketable Debt Securities. The investments in Advanced Wireless Semiconductor Company (AWSC) and WIN Semiconductor Corp. (WIN) are included in Other Assets as available-for-sale and recorded at fair value. 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 six months ended June 30, 2012 and the year ended December 31, 2011.

Investments in available-for-sale marketable debt securities are as follows at June 30, 2012 and December 31, 2011:

	Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	
	2012	2011	2012	2011	2012	2011	2012	2011
U.S. government and agency backed securities	\$ 36,121,573	\$ 31,480,482	\$ 561,093	\$ 665,171	\$	\$	\$ 36,682,666	\$ 32,145,653
Corporate debt and certificates of deposit	29,024,865	30,879,717			(540,658)	(701,983)	28,484,207	30,177,734
Total	\$ 65,146,438	\$ 62,360,199	\$ 561,093	\$ 665,171	\$ (540,658)	\$ (701,983)	\$ 65,166,873	\$ 62,323,387

The contractual maturity of the Company's marketable debt securities is as follows at June 30, 2012:

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	Less than One year	One to Five years	Greater than Five years	Total
U.S. government and agency backed securities	\$ 6,058,860	\$ 27,968,230	\$ 2,655,576	\$ 36,682,666
Corporate debt and certificates of deposit	19,293,984	8,358,973	831,250	28,484,207
Total	\$ 25,352,844	\$ 36,327,203	\$ 3,486,826	\$ 65,166,873

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

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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) income. The Company did not record an OTTI for the three and six month periods ended June 30, 2012 and June 25, 2011.

3. 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 at June 30, 2012 Using:		
		Level 1	Level 2	Level 3
Money Markets, Cash and Equivalents	\$ 31,160,196	\$ 31,160,196	\$	\$
U.S. Government Securities	36,682,666	17,515,855	19,166,811	
Corporate Debt	13,622,465		13,622,465	
Certificates of Deposit	14,861,742		14,861,742	
WIN Semiconductor Corp.	1,563,126	1,563,126		
Advanced Wireless Semiconductor Company	2,517,220	2,517,220		
	\$ 100,407,415	\$ 52,756,397	\$ 47,651,018	\$

		Fair Value Measurement at December 31, 2011 Using:		
		Level 1	Level 2	Level 3
Money Markets, Cash and Equivalents	\$ 43,095,163	\$ 43,095,163	\$	\$
U.S. Government Securities	32,145,653	12,892,670	19,252,983	
Corporate Debt	18,754,992		18,754,992	
Certificates of Deposit	11,422,742		11,422,742	
WIN Semiconductor Corp.	1,709,189	1,709,189		
Advanced Wireless Semiconductor Company	1,602,096	1,602,096		
	\$ 108,729,835	\$ 59,299,118	\$ 49,430,717	\$

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 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. The carrying amount of accrued liabilities is classified as Level 3 in the fair value hierarchy.

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Inventory is stated at the lower of cost (determined on the first-in, first-out or specific identification method) or market and consists of the following at June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Raw materials	\$ 9,914,530	\$ 9,934,724
Work-in-process	2,838,868	5,220,353
Finished goods	7,160,338	5,313,435
	\$ 19,913,736	\$ 20,468,512

Inventory on consignment at customer locations was \$5.0 million and \$3.4 million at June 30, 2012 and December 31, 2011, respectively.

5. 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 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		Six Months Ended	
	June 30, 2012	June 25, 2011	June 30, 2012	June 25, 2011
Weighted average common shares outstanding-basic	63,078,510	64,528,623	63,651,983	64,632,732
Stock options and non-vested restricted common stock		1,246,344		1,082,289
Weighted average common shares outstanding-diluted	63,078,510	65,774,967	63,651,983	65,715,021

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.

	June 30, 2012	June 25, 2011
Non-vested restricted common stock	2,888,463	554,012
Stock options	1,838,615	935,441
Total	4,727,078	1,489,453

6. STOCK-BASED COMPENSATION

The fair value of stock option awards is estimated on the date of grant using the Black-Scholes-Merton option-pricing model. There were no stock options granted in the six month period ended June 30, 2012, or in fiscal year 2011. The fair value of non-vested restricted common stock awards is generally the market value of the Company's equity shares 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

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certain cases also require meeting either performance criteria or the Company's stock achieving a certain price. The performance criteria primarily consist of the achievement of the Company's annual incentive plan goals. 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.

In 2011, the Company granted 380,000 shares of phantom stock which will be settled in cash at the end of the first 10 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 \$5.25, prior to September 12, 2016. The vesting of the awards upon achieving a closing stock price of \$5.25 for 10

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consecutive days is considered a market condition which requires the Company to periodically assess the fair market value of the award, with increases or decrease in the fair market value being reflected in the statement of operations. The fair market of the awards will be expensed over a derived service period currently estimated to be approximately 12 months. However, if the market condition occurs before the estimated service period of 12 months or if there are material changes in the underlying data used in the fair market valuation, the fair market valuation may increase or decrease and the period over which the fair market valuation is recognized in the statement of operations may increase or decrease.

A summary of award activity under the stock option plans as of June 30, 2012 and changes during the six month period is as follows (all options were vested as of June 30, 2012):

	Six months ended June 30, 2012	
	Shares	Weighted Average Exercise Price
Balance, December 31, 2011	1,903,325	\$ 5.07
Options forfeited/cancelled	(64,710)	8.00
Options exercised		
Balance, all exercisable, June 30, 2012	1,838,615	\$ 4.97

The following table summarizes information about stock options outstanding and exercisable at June 30, 2012:

Range of Exercise Prices	Options Outstanding and Exercisable		
	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$ 0.01 \$ 3.50	130,000	4.00	\$ 3.49
\$ 3.75 \$ 4.82	1,069,460	1.60	4.45
\$ 5.00 \$ 8.72	539,155	2.23	5.40
\$10.00 \$13.00	100,000	4.00	10.00
	1,838,615	2.08	\$ 4.97
Aggregate intrinsic value on June 30, 2012	\$ 1,450		

In June 2010, the Company issued a warrant to purchase 200,000 shares of the Company's stock at \$3.49. The warrant vested during the period ended June 30, 2012.

Non-Vested Restricted Common Stock

A summary of the activity for non-vested restricted common stock awards as of June 30, 2012 and changes during the six months then ended is presented below:

Shares	Weighted Average
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		Grant Fair Value
Balance, December 31, 2011	2,897,682	\$ 4.20
Granted	85,000	3.60
Forfeited	(16,219)	4.38
Vested	(78,000)	3.54
Balance, June 30, 2012	 	