EMAGIN CORP Form 10-Q November 12, 2013

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

Form 10-Q

(Mark One)

R QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

or

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

3006 Northup Way, Suite 103, Bellevue, Washington 98004 (Address of principal executive offices)

(425) 284-5200 (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.001 Par Value Per Share

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 R 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 ($\S232.405$ of this chapter) during the preceding 12 months). Yes R No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer £ Accelerated filer £

Non-accelerated filer £

Smaller reporting company R

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act) Yes \pounds No R

The number of shares of common stock outstanding as of October 31, 2013 was 23,878,300.

eMagin Corporation Form 10-Q For the Quarter ended September 30, 2013

Table of Contents

PART I	FINANCIAL INFORMATION	Page
Item 1	Condensed Consolidated Financial Statements	
	Condensed Consolidated Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012	3
	Condensed Consolidated Statements of Operations for the Three and Nine Months ended September 30, 2013 and 2012 (unaudited)	4
	Condensed Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2013 and 2012 (unaudited)	5
	Notes to Condensed Consolidated Financial Statements (unaudited)	6
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3	Quantitative and Qualitative Disclosures About Market Risk	18
Item 4	Controls and Procedures	18
PART II	OTHER INFORMATION	
Item 1	Legal Proceedings	19
Item 1A	Risk Factors	19
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	19
Item 3	Defaults Upon Senior Securities	19
<u>Item 4</u>	Mine Safety Disclosures	19
Item 5	Other Information	19
Item 6	<u>Exhibits</u>	19
SIGNATU	<u>RES</u>	20

ITEM 1. Condensed Consolidated Financial Statements

eMAGIN CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

Current assets: \$ 4,811 \$ 4,825 Cash and cash equivalents 8,000 8,520 Investments 3,850 5,154 Inventories, net 4,407 3,223 Prepaid expenses and other current assets 1,314 653 Total current assets 22,382 21,935 Long-term investments 250 500 Equipment, furniture and leasehold improvements, net 8,97 8,099 Other assets 2,88 12,4 Deferred tax asset 5,382 8,881 Total assets 36,239 \$ 39,539 LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities Accrued expenses 2,408 2,548 Other current liabilities 359 490 Total current liabilities 224,08 2,548 <t< th=""><th>ASSETS</th><th>3</th><th>eptember 0, 2013 naudited)</th><th>D</th><th>31, 2012</th></t<>	ASSETS	3	eptember 0, 2013 naudited)	D	31, 2012
Investments 8,000 8,520 Accounts receivable, net 3,850 5,154 Inventories, net 4,407 3,223 Prepaid expenses and other current assets 1,314 653 Total current assets 22,382 21,935 Long-term investments 250 500 Equipment, furniture and leasehold improvements, net 8,197 8,099 Other assets 28 124 Deferred tax asset 5,382 8,881 Total assets 5,382 8,881 Total assets 1,248 8,955 Accrued expenses 2,408 2,548 Other current liabilities 35 409 Total current liabilities 35 409 Total current liabilities 35 409 Commitments and contingencies (Note 8) 5 5 Shareholders' equity: 5 5 39 409 Total current liabilities 402 5 39 409 Total current liabilities 5 5 <t< td=""><td>Current assets:</td><td></td><td></td><td></td><td></td></t<>	Current assets:				
Accounts receivable, net 3,850 5,154 Inventories, net 4,407 3,223 Trepaid expenses and other current assets 22,382 21,935 Total current assets 223,82 21,935 Long-term investments 250 500 Equipment, furniture and leasehold improvements, net 8,197 8,090 Other assets 2,88 124 Deferred tax asset 5,382 8,881 Total assets 36,239 39,539 LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Accrued expenses 2,408 2,548 Other current liabilities 3,59 409 Accrued expenses 2,408 2,548 Other current liabilities 3,912 3,912 Commitments and contingencies (Note 8) Shareholders' equity: Preferred stock, 5,001 par value: authorized 10,000,000 shares: Series B Convertible Preferred stock, (liquidation preference of \$5,659,000) stated value \$1,000 per share, \$,001 par value: authorized 200,000,000 shares issued and outstanding,	Cash and cash equivalents	\$	4,811	\$	4,385
Inventories, net 4,407 3,223 Prepaid expenses and other current assets 1,314 653 Total current assets 22,382 21,935 Long-term investments 250 500 Equipment, furniture and leasehold improvements, net 8,197 8,099 Other assets 28 124 Deferred tax asset 5,382 8,881 Total assets 36,339 39,539 LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities 1,258 9,55 Accounts payable \$1,258 9,55 Accounts payable \$1,258 9,55 Accounts payable \$1,258 9,55 Accrued expenses 2,408 2,548 Other current liabilities 359 409 Total current liabilities 359 409 Total current liabilities 5,801 9,012 Commitments and contingencies (Note 8) Shareholders' equity: Freferred stock, \$.001 par value: authorized 10,000,000 shares as issued and outstanding as of	Investments		8,000		8,520
Prepaid expenses and other current assets 1,314 653 Total current assets 22,382 21,935 Long-term investments 250 500 Equipment, furniture and leasehold improvements, net 8,197 8,099 Other assets 28 124 Deferred tax asset 5,382 8,881 Total assets 36,239 \$36,239 LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities Accounts payable \$1,258 9.55 Accounts payable \$1,258 9.55 Accounted expenses 2,408 2,548 Other current liabilities 359 409 Total current liabilities 359 409 Commitments and contingencies (Note 8) Shareholders' equity: Preferred stock, \$001 par value: authorized 10,000,000 shares: Series B Convertible Preferred stock, (liquidation preference of \$5,659,000) stated value and outstanding as of September 30, 2013 and December 31, 2012 24 24 Common stock, \$001 par value: authorized 200,000,000 shares designated and outstanding. <td>Accounts receivable, net</td> <td></td> <td>3,850</td> <td></td> <td>5,154</td>	Accounts receivable, net		3,850		5,154
Total current assets 22,382 21,935 Long-term investments 250 500 Equipment, furniture and leasehold improvements, net 8,197 8,099 Other assets 28 124 Deferred tax asset 5,382 8,881 Total assets 36,239 39,539 LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities 1,258 955 Accounts payable 1,258 955 Accound expenses 2,408 2,548 Other current liabilities 359 409 Total current liabilities 359 409 Commitments and contingencies (Note 8) Shareholders' equity: Preferred stock, \$.001 par value: authorized 10,000,000 shares: Series B Convertible Preferred stock, (liquidation preference of \$5,659,000) stated value \$1,000 per share, \$.001 par value: 10,000 shares designated and 5,659 issued and outstanding as of September 30, 2013 and 23,674,541 as of December 31, 2012 24 24 2,3878,300 shares as of September 30, 2013 and 23,674,541 as of December 31, 2012 24 24	Inventories, net		4,407		3,223
Long-term investments 250 500 Equipment, furniture and leasehold improvements, net 8,197 8,099 Other assets 28 124 Deferred tax asset 5,382 8,881 Total assets 36,239 \$30,539 LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities Accounts payable \$1,258 9,555 Accounts payable	Prepaid expenses and other current assets		1,314		653
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Other assets 28 124 Deferred tax asset 5,382 8,881 Total assets 36,239 39,539 LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Accounts payable 1,258 955 Accrued expenses 2,408 2,548 Other current liabilities 359 409 Total current liabilities 4,025 3,912 Commitments and contingencies (Note 8) Shareholders' equity: Preferred stock, \$.001 par value: authorized 10,000,000 shares: Series B Convertible Preferred stock, (liquidation preference of \$5,659,000) stated value \$1,000 per share, \$.001 par value: 10,000 shares designated and 5,659 issued and outstanding as of September 30, 2013 and December 31, 2012 2 2 Common stock, \$.001 par value: authorized 200,000,000 shares, issued and outstanding, 23,878,300 shares as of September 30, 2013 and 23,674,541 as of December 31, 2012 24 24 Additional paid-in capital 225,560 223,575 2 2 2 3 3 2 2 2 4 2 4 2 4 <t< td=""><td>Long-term investments</td><td></td><td>250</td><td></td><td>500</td></t<>	Long-term investments		250		500
Other assets 28 124 Deferred tax asset 5,382 8,881 Total assets 36,239 39,539 LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Accounts payable 1,258 955 Accrued expenses 2,408 2,548 Other current liabilities 359 409 Total current liabilities 4,025 3,912 Commitments and contingencies (Note 8) Shareholders' equity: Preferred stock, \$.001 par value: authorized 10,000,000 shares: Series B Convertible Preferred stock, (liquidation preference of \$5,659,000) stated value \$1,000 per share, \$.001 par value: 10,000 shares designated and 5,659 issued and outstanding as of September 30, 2013 and December 31, 2012 2 2 Common stock, \$.001 par value: authorized 200,000,000 shares, issued and outstanding, 23,878,300 shares as of September 30, 2013 and 23,674,541 as of December 31, 2012 24 24 Additional paid-in capital 225,560 223,575 2 2 2 3 3 2 2 2 4 2 4 2 4 <t< td=""><td></td><td></td><td>8,197</td><td></td><td>8,099</td></t<>			8,197		8,099
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Total assets \$ 36,239 \$ 39,539 LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: \$ 1,258 \$ 955 Accounts payable \$ 1,258 \$ 955 Accrued expenses \$ 2,408 2,548 Other current liabilities 3,912 Commitments and contingencies (Note 8) Shareholders' equity: Preferred stock, \$.001 par value: authorized 10,000,000 shares: Series B Convertible Preferred stock, (liquidation preference of \$5,659,000) stated value \$1,000 per share, \$.001 par value: 10,000 shares designated and 5,659 issued and outstanding as of September 30, 2013 and December 31, 2012 ———————————————————————————————————	Deferred tax asset		5,382		8,881
LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: \$ 1,258 \$ 955 Accounts payable \$ 2,408 2,548 Other current liabilities 359 409 Total current liabilities 4,025 3,912 Commitments and contingencies (Note 8) Commitments and contingencies (Note 8) *** Shareholders' equity: *** *** Preferred stock, \$.001 par value: authorized 10,000,000 shares: *** *** Series B Convertible Preferred stock, (liquidation preference of \$5,659,000) stated value \$1,000 per share, \$.001 par value: 10,000 shares designated and 5,659 issued and outstanding as of September 30, 2013 and December 31, 2012 —*** —*** Common stock, \$.001 par value: authorized 200,000,000 shares, issued and outstanding, 23,878,300 shares as of September 30, 2013 and 23,674,541 as of December 31, 2012 24 24 Additional paid-in capital 225,560 223,575 Accumulated deficit (192,871) (187,509) Treasury stock, 162,066 shares as of September 30, 2013 and 150,000 shares as of Ceptember 31, 2012 4 24 Total shareholders' equity 35,2214 35,627	Total assets	\$		\$	
Current liabilities: Accounts payable \$ 1,258 \$ 955 Accrued expenses 2,408 2,548 Other current liabilities 359 409 Total current liabilities 4,025 3,912 Commitments and contingencies (Note 8) Commitments and contingencies (Note 8) Shareholders' equity: Preferred stock, \$.001 par value: authorized 10,000,000 shares: Series B Convertible Preferred stock, (liquidation preference of \$5,659,000) stated value \$1,000 per share, \$.001 par value: 10,000 shares designated and 5,659 issued and outstanding as of September 30, 2013 and December 31, 2012 ————————————————————————————————————			•		,
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Other current liabilities 359 409 Total current liabilities 4,025 3,912 Commitments and contingencies (Note 8) Shareholders' equity: Preferred stock, \$.001 par value: authorized 10,000,000 shares: Series B Convertible Preferred stock, (liquidation preference of \$5,659,000) stated value \$1,000 per share, \$.001 par value: 10,000 shares designated and 5,659 issued and outstanding as of September 30, 2013 and December 31, 2012 — ————————————————————————————————					2,548
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Additional paid-in capital 225,560 223,575 Accumulated deficit (192,871) (187,509) Treasury stock, 162,066 shares as of December 31, 2012 (499) (463) Total shareholders' equity 32,214 35,627	•		24		24
Accumulated deficit (192,871) (187,509) Treasury stock, 162,066 shares as of September 30, 2013 and 150,000 shares as of December 31, 2012 (499) (463) Total shareholders' equity 32,214 35,627	· · · · · · · · · · · · · · · · · · ·				
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December 31, 2012 Total shareholders' equity 32,214 35,627					
Total shareholders' equity 32,214 35,627			(499)		(463)
<u> </u>			32.214		35 627
	Total liabilities and shareholders' equity	\$	36,239	\$	39,539

See notes to Condensed Consolidated Financial Statements.

eMAGIN CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data) (unaudited)

	Sept	Three Months Ended September 30,		Nine Mon Septem		iber 30,	
Revenue:	2013	201	2	2013		2012	
Product	\$5,770	\$6,309		\$20,671		\$19,263	
Contract	559	1,201		1,189		2,971	
Total revenue, net	6,329	7,510		21,860		22,234	
Cost of goods sold:							
Product	3,848	3,132		12,821		9,914	
Contract	256	729		672		1,477	
Total cost of goods sold	4,104	3,861		13,493		11,391	
Gross profit	2,225	3,649		8,367		10,843	
Operating expenses:							
Research and development	1,239	1,173		3,882		3,571	
Selling, general and administrative	2,041	1,918		6,358		6,525	
Total operating expenses	3,280	3,091		10,240		10,096	
(Loss) income from operations	(1,055) 558		(1,873)	747	
Other income (expense):							
Interest expense, net	(11) (10)	(32)	(18)
Other income, net	9	13		45		32	
Total other income (expense), net	(2) 3		13		14	
(Loss) income before provision for income taxes	(1,057) 561		(1,860)	761	
Provision for income taxes	3,502	221		3,502		295	
Net (loss) income	\$(4,559) \$340		\$(5,362)	\$466	
Less net income allocated to participating securities	Ψ(1,55) —	83		ψ(3,30 <u>2</u>	,	113	
Net (loss) income allocated to common shares	\$(4,559) \$257		\$(5,362)	\$353	
(Loss) income per share, basic	\$(0.19) \$0.01		\$(0.23)	\$0.02	
(Loss) income per share, diluted	\$(0.19) \$0.01		\$(0.23)	\$0.01	
Weighted average number of shares outstanding:							
Basic	23,718,10	6 23,444	1,361	23,610,5	0,531 23,473		770
Diluted	23,718,10	6 25,393	3,035	23,610,531		25,360,8	364

See notes to Condensed Consolidated Financial Statements.

eMAGIN CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)

	Nine Months Ended	
	September 30, 2013 2012	
		2012 idited)
Cash flows from operating activities:	(unat	idited)
Net (loss) income	\$ (5,362)	\$ 466
Adjustments to reconcile net (loss) income to net cash provided by operating activities:	\$ (3,302)	φ 400
Depreciation and amortization	656	168
Reduction in provision for doubtful accounts	(1)	100
Amortization of bond premium	20	21
Inventory reserve	16	3
Stock-based compensation	1,645	1,959
Gain on sale of asset	•	1,939
Deferred income taxes	(9)	
	3,499	_
Changes in operating assets and liabilities:	1 205	500
Accounts receivable	1,305	599
Inventories, net	(1,200)	(57)
Prepaid expenses and other current assets	(568)	77
Accounts payable, accrued expenses, and other current liabilities	113	267
Net cash provided by operating activities	114	3,503
Cash flows from investing activities:		
Purchase of equipment	(757)	(1,090)
Proceeds from sale of asset	15	_
Maturities of investments	11,250	6,495
Purchase of investments		