KOPIN CORP
Form 10-K
March 12, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 27, 2014

OR

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

For the transition period from to

Commission file number 0-19882

KOPIN CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	04-2833935
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
125 North Drive, Westborough, MA	01581-3335
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(508) 870-5959
Securities registered pursuant to Section 12(b) of the Act:	Common Stock, par value $.01 per share (Title of Class)
Name of each exchange on which registered	NASDAQ Global Market
Securities registered pursuant to Section 12(g) of the Act:	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 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). x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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. (Check one):

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨ Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 28, 2014 (the last business day of the registrant's most recent second fiscal quarter) the aggregate market value of outstanding shares of voting stock held by non-affiliates of the registrant was $219,868,655.
As of March 6, 2015, 65,790,407 shares of the registrant’s Common Stock, par value $.01 per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant’s definitive Proxy Statement relating to its 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

Part I

Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, including, without limitation, statements made relating to our expectation that we will continue to pursue other U.S. government development contracts for applications that relate to our commercial product applications; our expectation that we will prosecute and defend our proprietary technology aggressively; our belief that it is important to retain personnel with experience and expertise relevant to our business; our belief that our products are targeted towards markets that are still developing and our competitive strength is creating new technologies; our belief that it is important to invest in research and development to achieve profitability even during periods when we are not profitable; our belief that we are a leading developer and manufacturer of advanced miniature displays; our belief that our products enable our customers to develop and market an improved generation of products; our belief that that the technical nature of our products and markets demands a commitment to close relationships with our customers; our belief that our Golden-i industrial reference design will provide for increased worker productivity, safety and improved manufacturing quality; our belief that our wearable technology will be embraced by consumers and commercial users and our ability to develop and expand the our wearable technologies and to market and license our wearable technologies will be important for our revenue growth and ability to achieve profitability and positive cash flow; the impact of the timing of development of the market segment for our wearable computing products on our ability to grow revenues; our expectation that we will incur significant development and marketing costs in 2015 to commercialize our wearable technologies; our statement that we may make equity investments in companies; our expectation that the cash and marketable debt securities held by Kowon will eventually be remitted back to the U.S.; our expectation that the U.S. government will significantly reduce funding for programs through which we sell high margin military products; our expectation that unexpected orders fir military products will continue in the first quarter of 2015; our belief that a strengthening of the U.S. dollar could increase the price of our products in foreign markets; the impact of new regulations relating to conflict minerals on customer demands and increased costs related to compliance with such regulations; our belief that our future success will depend primarily upon the technical expertise, creative skills and management abilities of our officers and key employees rather than on patent ownership; our belief that our extensive portfolio of patents, trade secrets and non-patented know-how provides us with a competitive advantage in the wearable technologies market; our belief that our ability to develop innovative products enhances our opportunity to grow within our targeted markets; our belief that continued introduction of new products in our target markets is essential to our growth; our expectation that our display products will benefit from further general technological advances in the design and production of integrated circuits and active matrix LCDs, resulting in further improvements in resolution and miniaturization; our belief that our manufacturing process offers greater miniaturization, reduced cost, higher pixel density, full color capability and lower power consumption compared to conventional active matrix LCD manufacturing approaches; our expectation not to pay cash dividends for the foreseeable future and to retain earnings for the development of our businesses; our expectation that we will expend between $2.0 million and $3.0 million on capital expenditures over the next twelve months; our expectation that competition will increase; our belief that small form factor displays will be a critical component in the development of advanced wireless communications systems; our belief that wireless handset makers are looking to create products that complement or eventually replace wireless handsets; our belief that general technological advances in the design and fabrication of integrated circuits, LCD technology and LCD manufacturing processes will allow us to continue to enhance our display product manufacturing process; our belief that continued introduction of new products in our target markets is essential to our growth; our belief that our available cash resources will support our operations and capital needs for at least the next twelve months; our expectation that we will have taxes based on federal alternative minimum tax rules and on our foreign operations in 2015; our expectation that we will have a state tax provision in 2015; our expectation that the adoption of certain accounting standards will not have a material impact on our financial position or results of operations; our belief that our business is not disproportionately affected by climate change regulations; our belief that our operations have not been materially affected by inflation; and our belief that the effect, if any, of reasonably possible near-term changes in interest rates on

our financial position, results of operations, and cash flows should not be material. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate, management's beliefs, and assumptions made by management. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of us. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “could”, “seeks”, “estimates”, and variations of such words and similar expressions are intended identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements, whether as a result of new information, future events or otherwise. Factors that could cause or contribute to such differences in outcomes and results include, but are not limited to, those discussed below in Item 1A and those set forth in our other periodic filings filed with the Securities and Exchange Commission. Except as required by law, we do not intend to update any forward-looking statements even if new information becomes available or other events occur in the future.

Item 1. Business

Introduction

On January 16, 2013, we completed the sale of our III-V product line, including all of the outstanding equity interest in KTC Wireless, LLC (KTC), a wholly-owned subsidiary of the Company, to IQE KC, LLC (IQE) and IQE plc (Parent, and collectively with IQE, the Buyer). Our III-V products primarily consisted of our Gallium Arsenide-based HBT transistor wafers. The aggregate purchase price was approximately $75 million, subject to certain adjustments, including working capital adjustments and escrow. Upon agreement of the final working capital and other adjustments the net purchase price was $70.2 million, and the gain on the sale, net of tax, was $20.1 million. Under the terms of the Purchase Agreement, $55 million was paid to us in January 2013, $0.2 million was paid in April 2013 and the remaining $15 million is scheduled to be paid to us on the third anniversary of the Closing Date. We have revised the prior period amounts in our consolidated financial statements for the impact of the sale of the III-V product line, which is reflected as discontinued operations.

We were incorporated in Delaware in 1984 and are a leading inventor, developer, manufacturer and seller of Wearable technologies which include components and concept systems. The components that we sell consist of our proprietary miniature active-matrix liquid crystal displays (AMLCD), liquid crystal on silicon (LCOS) displays, optical lenses and application specific integrated circuits (ASICs). Our concept systems are focused on the emerging market for head-worn, hands-free voice and gesture controlled wireless computing and communication devices. These devices include our components and a variety of commercially available software packages such as Microsoft Windows CE, Android, Nuance Dragon NaturallySpeaking and Hillcrest Labs with our proprietary software. Our business model includes both selling our components or licensing our concept systems to branded OEM customers who wish to develop and market head-worn products for both mobile enterprise and consumer applications.

Our components consist of our proprietary high performance, transmissive AMLCDs and reflective LCOS micro-displays offered in a variety of resolutions and sold separately or in various configurations with optical lenses and electronics contained in either plastic or metal housings. Our micro-displays, when combined with our specialized optics, provide the appearance to the user of being “normal’ size, as if viewing the content on a laptop or tablet. Our micro-displays are designed and manufactured by us. Our optical lenses are either developed by us or licensed from others and are manufactured for us. Our ASICs, which are used to control our micro-displays, are designed by us and manufactured by foundries. Current products which include our miniature, high performance, high resolution AMLCDs are military devices, such as thermal weapon sights, Wearable computing devices for consumer and enterprise applications, such as recreational drones and headset, and consumer devices such as digital cameras; and devices that are capable of accessing the Internet or digital storage devices for viewing data or video. When our reflective display products are configured as spatial light modulators, the applications include industrial equipment for 3D Automated Optical Inspection and training simulation equipment. We have sold our AMLCD products to Raytheon Company, DRS RSTA Inc., BAE Systems (directly and through a third party QiOptiq), and ITT for use in military applications and to Samsung Electronics Co., Ltd. (Samsung), Eastman Kodak Company (Kodak), Olympus Corporation (Olympus) and Fuji Corporation (Fuji) for digital still cameras and to Motorola and others for Wearable devices.

For fiscal years 2014, 2013 and 2012, significant display customers are shown below. The caption “Military Customers in Total” in the table below excludes research and development contracts. We sell our displays to Japanese customers through Ryoden Trading Company. (“*” denotes that the customer's revenues were less than 10% of our total company revenues)

	Percent of Total Revenues		
Customer	2014	2013	2012
Military Customers in Total	45%	38%	57%

Raytheon Company	26%	14%	22%
Google Inc.	11%	*	*
DRS RSTA Inc.	*	*	21%
Ryoden Trading Company	*	18%	12%
U.S. Government funded research and development contracts	4%	10%	10%

Our fiscal year ends on the last Saturday in December. The fiscal years ended December 27, 2014, December 28, 2013, and December 29, 2012 are referred to herein as fiscal years 2014, 2013 and 2012, respectively. Our principal executive offices are located at 125 North Drive, Westborough, Massachusetts. Our telephone number is (508) 870-5959.

Industry Overview

Wearable Computing/Communicating

Multiple billions of dollars of worth of wireless hand-held devices, mainly smart phones and tablets, are sold annually for communication, data input, storage and retrieval, accessing the Internet, and other purposes. A new category of "wearable" derivative wireless devices is emerging that includes head-worn devices, Smart Watches, and Bluetooth headsets which allow the user to more easily control and use their smart phone or tablet's display screen, voice and text communication features without needing to hold the smart phone or tablet itself. This emerging category of Wearable devices can be used for hundreds of different applications by both enterprise workers and consumers, bringing ever-increasing productivity and convenience. With the continuing advances in smart phone capabilities, both workers and consumers now have access to all of their files, the Internet, phone, e-mail etc. via their smart phone, enabling an "always connected" work-style and lifestyle. We believe that advances in wearables will continue to make the "always connected" life increasingly convenient and more productive by providing easier access to and control of the information accessible through our electronic devices.

Wearable computing products also include body-worn devices such as scanners and terminals which are sold to enterprise markets to improve worker productivity. The user interface for these devices is typically either a key pad or a touch screen. Some Wearable products include voice recognition software as an additional feature to allow the user to navigate the device's interface "hands-free" instead of using a traditional mouse, touch screen or keypad. We believe wireless smartphone makers are looking to create products that work as a complement to the smartphone or to eventually replace the smartphone with more convenient configurations. Wireless network companies are encouraging the development of more products that utilize their network capacity and other companies are developing products which provide continuous access to social media outlets. In order for the markets for these new products to develop, further advances in the devices and application software will be required. Device improvements include smaller higher resolution displays, lower power processors, longer-life batteries, compact optics and software including voice recognition and noise cancellation. In order for the market for these devices to grow, application software must be developed that exploit their new features and functions.

Our Solution

Kopin Wearable Technology

Kopin Wearable technology includes proprietary hardware technologies and software which can be integrated to create wearable products and reference designs which use voice as the primary user interface and through the use of wireless technologies can contact other users or information from the cloud. The headset reference designs range from a consumer-oriented headset which resembles typical eyeglasses but include voice and audio capabilities allowing the user to communicate with other users to our industrial headset reference design, called Golden-i, which is essentially a complete head-worn computer that includes an optical pod with one of our display products, a microprocessor, battery, camera, memory and various commercially available software packages that we license, such as Microsoft Windows CE or Android, Nuance Dragon NaturallySpeaking, and Hillcrest Labs motion control. Our headset reference designs utilize operating system software we developed and may include our proprietary noise cancellation technologies. The optical pod allows enterprise users to view information such as WEB data, technical diagrams, streaming video or face-to-face communication and consumer users to view information such as emails, text messages, maps or biometric data at a comfortable "normal" size because of our specialized optics. When viewing certain information the user is capable of zooming in to see finer details or zooming out to see a larger perspective. Some headset reference designs have a camera feature which enables the consumer and enterprise users to take pictures or stream live video to a remote subject matter expert so that both the user and expert can analyze an issue at the same time and collaboratively identify and implement a solution.

We believe Kopin's Wearable technology will enable easier and more convenient access to the content individuals carry in their smartphones or "in the cloud" and will be embraced by both consumers and commercial users. For commercial users, we believe increased productivity, safety and improved manufacturing quality through more

efficient issue resolution and improved communication will drive adoption. Kopin Wearable reference designs are targeted for markets where the user needs a much greater range of functionality than is typically provided by wireless devices such as handsets, smart phones, tablets or Bluetooth headsets and either due to the requirements of their usage patterns, occupation, or for improved productivity the user is better served with voice recognition as the primary interface as opposed to a touch screen or keyboard.

Display Products

Small form factor displays are used in military, consumer electronic and industrial products such as thermal weapon sights, digital cameras, training and simulation products and metrology tools. We expect the market for wireless communications devices, including personal entertainment systems, will continue to grow. In order for this market to develop, advances and investment in wireless communications systems such as greater bandwidth and increased functionality will be necessary. We believe small form factor displays will be a critical component in the development of advanced mobile wireless

communications systems as these systems must provide high resolution images without compromising the portability of the product.

There are several display technologies commercially available including transmissive, reflective and emissive. The most commonly used technology in portable applications is based on the traditional liquid crystal display, or LCD, which is now in widespread use. These displays form an image by either transmitting or reflecting light emitted from a source located either behind or in front of the LCD. The principal LCD technologies are passive and active matrix.

- Passive Matrix Liquid Crystal Display. These displays are primarily used in calculators, simple watches and wireless handsets because of their relatively low cost and low power consumption. Their relatively low image quality, slow response time and limited viewing angle, however, make them inadequate for many demanding applications.
- Active Matrix Liquid Crystal Display. These displays are used primarily in wireless handsets, tablets, laptop computers, televisions and projection systems. In contrast to passive matrix LCDs, color active matrix LCDs incorporate three transistors at every pixel location. This arrangement allows each sub-pixel to be turned on and off independently which improves image quality and response time and also provides an improved side-to-side viewing angle of the display.

Our principal display products are miniature high density color or monochrome Active Matrix Liquid Crystal Displays (AMLCDs) with resolutions which range from approximately 320 x 240 resolution to 2048 x 2048 resolution sold in either a transmissive or reflective format. We sell our displays individually, in a module which includes a single display, backlight and optics in a plastic housing, for consumer applications or in a Higher-Level Assembly (HLA) which contains a display, light emitting diode based illumination, optics, and electronics in a sealed housing, for commercial and military applications.

Our transmissive display products, which we refer to as CyberDisplay™ products, utilize high quality, single crystal silicon-the same high quality silicon used in conventional integrated circuits. This single crystal silicon is not grown on glass; rather, it is first formed on a silicon wafer and patterned into an integrated circuit (including the active matrix, driver circuitry and other logic circuits) in an integrated circuit foundry. The silicon wafer is then sent to our facilities and the integrated circuit is lifted off as a thin film and transferred to glass using our proprietary Wafer™ Engineering technology, so that the transferred layer is a fully functional active matrix integrated circuit which now resides on a transparent substrate.

Our proprietary technology enables the production of transparent circuits on a transparent substrate, in contrast to conventional silicon circuits, which are on an opaque substrate. Our CyberDisplay products' imaging properties are a result of the formation of a liquid crystal layer between the active matrix integrated circuit glass and the transparent cover glass. We believe our manufacturing process offers several advantages over conventional active matrix LCD manufacturing approaches with regard to small form factor displays, including:

- Greater miniaturization;
- Higher pixel density;
- Full color capability; and
- Lower power consumption.

Our use of high quality single crystal silicon in the manufacture of our CyberDisplay products offers several performance advantages. The color CyberDisplay products we sell generate colors by using color filters with a white backlight. Color filter technology is a process in which display pixels are patterned with materials, which selectively absorb or transmit the red, green or blue colors of light.

Our CyberDisplay displays have the additional advantage of being fabricated using conventional silicon integrated circuit lithography processes. These processes enable the manufacture of miniature active matrix circuits, resulting in comparable or higher resolution displays relative to passive and other active matrix displays that are fabricated on

glass. Our foundry partners fabricate integrated circuits for our CyberDisplay displays in their foundries in Taiwan and Korea. The fabricated wafers are then returned to our facilities, where we lift the integrated circuits off the silicon wafers and transfer them to glass using our proprietary technology. The transferred integrated circuits are then processed, packaged with liquid crystal and assembled into display panels at our Display Manufacturing Center in Westborough, Massachusetts.

For military applications of our CyberDisplay, the display is fabricated, tested and incorporated into a HLA. We offer a variety of models with varying levels of complexity but common to all is our display, illuminations source, optics and electronics in a sealed unit.

Our reflective LCOS displays products are miniature high density dual mode color sequential/monochrome reflective micro displays with resolutions which range from approximately 1280 x 720 pixels (720P) resolution to 2048 x 1536 pixels (QXGA) resolution. These displays are manufactured at our facility in Scotland, U.K. Our reflective displays are based on a proprietary, very high-speed, ferroelectric liquid crystal on silicon (FLCOS) platform. Our digital software and logic based drive electronics combined with the very fast switching binary liquid crystal enables our micro display to process images purely digitally and create red, green and blue gray scale in the time domain. This architecture has major advantages in visual performance over other liquid crystal, organic light-emitting diode and MEMS based technologies: precisely controlled full color or monochrome gray scale is achieved on a matrix of undivided high fill factor pixels, motion artifacts are reduced to an insignificant level and there are no sub-pixels, no moving mirrors and no analog conversions to detract from the quality of the image.

The FLCOS device is comprised of two substrates. The first is a pixelated silicon-based CMOS substrate which is manufactured by our foundry partner using conventional silicon integrated circuit lithography processes. The silicon substrate forms the display's backplane, serving as both the active matrix to drive individual pixels and as a reflective mirror. The second substrate is a front glass plate. Between the backplane and the front glass substrate is the ferroelectric liquid crystal material which, when switched, enables the incoming illumination to be modulated.

Strategy

Our strategy is to invent, develop, manufacture and sell the leading-edge critical components that enable our customers to create differentiated products in their respective markets that enable a better “always connected” experience. The core components we provide are: displays, optics, backlights, and ASIC’s along with core system software, noise cancellation software and compact system designs. We have developed several headset concept designs which use voice and gesture control as the primary interface between the user and the headset. The headset can send and receive both audio and video over wireless networks which allows for two-way communication with anyone with a phone or other type of communications device. The headset concept designs are run by software that we either developed internally or license from third parties. The video, documents and similar information (for example diagrams) are shown in an optical pod which is part of the device. The optical pod is comprised of one of our micro display products and other components (backlight, optical lens and Application Specific Integrated Circuits (ASIC) which are either made to our specifications or are standard parts that we purchase. Some of the concept designs have a camera feature which allows the user to send video to a remote third party. Our business model is to enable our customers to move into the market quickly by either licensing our concept designs and entering into agreements for the sale of our components or just selling our components separately. We offer our products to developers and manufacturers of enterprise products, military products, consumer electronic products, 3d metrology equipment and to manufacturers of the next generation of mobile devices. The critical elements of our strategy include:

- Broad Portfolio of Intellectual Property. We believe that our extensive portfolio of patents, trade secrets and non-patented know-how provides us with a competitive advantage in the wearable computing industry and we have been accumulating, either by internal efforts or through acquisition, a significant patent and know-how portfolio. We own, exclusively license or have the sole right to sublicense more than 250 patents issued and pending worldwide. An important piece of our strategy is to continue to accumulate valuable patented and non-patented technical know-how relating to our micro displays as well as other critical technologies for advanced wearable services.

- Maintain Our Technological Leadership. We are a recognized leader in the design, development and manufacture of high resolution micro displays and modules which incorporate our micro displays with backlights, optic and ASICs and we believe our ability to develop components, software and noise cancelling technology and innovative concept system designs enhances our opportunity to grow within our targeted markets. By continuing to invest in research and development, we are able to add to our expertise as a system and components supplier for our OEM customers, and we intend to continue to focus our development efforts on proprietary wearable computing systems.

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Develop Headset Concept Systems. The Wearable device market is just beginning and part of our strategy is to develop headset concept systems in order to facilitate for our customers the design-in process of our components into their finished products. We believe our understanding of the issues associated with our customers' products and our ability to help them optimize their product offering has been an important reason we have previously been successful in developing customer relationships. Our strategy is to licenses our concept systems to companies that wish to offer products for the wearable market and then sell them critical components including display,

backlights, optics and ASICs products or we may just sell them the critical components. We believe our system know-how is a compelling reason customers choose us as their supplier.

- Strong U.S. Government Program Support. We perform under research and development contracts with U.S. government agencies, such as the U.S. Night Vision Laboratory and the U.S. Department of Defense. Under these contracts, the U.S. Government funds a portion of our efforts to develop next-generation micro display related technologies. This enables us to supplement our internal research and development budget with additional funding.

Markets and Customers

Wearable products

Our business model is to generate revenues by licensing, for a royalty fee, our concept designs and know-how, which includes the operating software and patented product designs, and selling components to customers who develop and manufacture, or distribute, products based on our technology. We may also receive development fees from customers to help them integrate our technology into their products.

Display Products

We currently sell our display products to our customers as either a single display component, as a module which includes a lens, backlight, focus mechanism and electronics, or as higher level assemblies or HLA for military customers. A HLA is similar to a module but includes additional components such as an eye cup specific to a military application. We have sold our AMLCD products to Raytheon Company, DRS RSTA Inc., BAE Systems (directly and through a third party QiOptiq), L-3 Communications, Northrop Grumman, Rockwell Collins, THALES, Elbit Systems, FLIR Systems and ITT for use in military applications and to Samsung Electronics Co., Ltd. (Samsung), Eastman Kodak Company (Kodak), Olympus Corporation (Olympus) and Fuji Corporation (Fuji) for digital still cameras and to Motorola and others for Wearable devices.

In order for our display products to function properly in their intended applications, ASICs generally are required. Several companies have designed ASICs to work with our display products and our customers can procure these chip sets directly from the manufacturer or through us.

For fiscal years 2014, 2013 and 2012, sales to military customers, excluding research and development contracts, as a percentage of total revenue were 45%, 38% and 57%, respectively.

For fiscal years 2014, 2013 and 2012, research and development revenues, primarily from multiple contracts with various U.S. governmental agencies, accounted for approximately 15%, 10% and 10%, respectively, of our total revenues.

For additional information with respect to our operating segments including sales and geographical information, see Note 15 to our financial statements for the year ended December 27, 2014, included with this Annual Report on Form 10-K.

Sales and Marketing

Our strategy is to license our headset concept designs to customers who will develop end user products that include our components and software. Our concept designs are still in the development stage and our marketing strategy has been primarily focused on establishing partnerships with leading companies in specific markets in order to understand their product requirements.

We sell our consumer electronic display products both directly and through distributors to original equipment manufacturers. We sell our military display products directly to prime contractors of the U.S. government or to foreign companies. For our display products we have a few customers who purchase in large volumes and many customers who buy in small volumes as part of their product development efforts. “Large volume” is a relative term. For

consumer display customers, purchases may be in the tens of thousands per week, whereas industrial and military customers may purchase less than a hundred per month.

We believe that the technical nature of our products and markets demands a commitment to close relationships with our customers. Our sales and marketing staff, assisted by our technical staff and senior management, visit prospective and existing customers worldwide on a regular basis. We believe these contacts are vital to the development of a close, long-term working relationship with our customers, and in obtaining regular forecasts, market updates and information regarding technical and market trends. We also participate in industry specific trade shows and conferences.

Our design and engineering staff are actively involved with customers during all phases of prototype design and production by providing engineering data, up-to-date product application notes, regular follow-up and technical assistance. In most cases, our technical staff work with each customer in the development stage to identify potential improvements to the design of the customer's product in parallel with the customer's effort. We have established a prototype product design group in Scotts Valley, California to assist our military product customers and in Santa Clara, California to assist our wearable product customers. These groups assist customers with incorporating our technologies and products into our customer's products and to accelerate the design process, achieving cost-effective and manufacturable products, and ensuring a smooth transition into high volume production. Our group in Scotts Valley is also actively involved with research and development contracts for military applications.

Product Development

We believe that continued introduction of new products in our target markets is essential to our growth. Our commercial products tend to have one to three year life cycles. We have assembled a group of highly skilled engineers who work internally as well as with our customers to continue our product development efforts. For the headset concept designs we develop optics, ASICs, software and housings using both internal and external resources. For fiscal years 2014, 2013, and 2012 we incurred total research and development expenses of $20.7 million, $17.5 million and $14.3 million, respectively.

Component Products

Our display product development efforts are focused towards continually enhancing the resolution, performance and manufacturability of our display products. A principal focus of this effort is the improvement of manufacturing processes for very small active matrix pixels with our eight-inch manufacturing line, which we are using for our most advanced display products. The pixel size of our current transmissive display products ranges from 6.8 to 15 microns. These pixel sizes are much smaller than a pixel size of approximately 100 microns in a typical laptop computer display. The resolutions of our current commercially available display products are 320 x 240, 432 x 240, 640 x 480, 854 x 480, 800 x 600, 1,024 x 768, 1,280 x 1,024 and 2,048 x 1,536 pixels. In addition, we have demonstrated 2,048 x 2,048 resolution displays in a 0.96-inch diagonal size. We are also working on further decreasing the power consumption of our display products. The pixel size of our current reflective display products ranges from 8.2 to 13.6 microns. The resolutions of our current commercially available reflective display products are 1,280 x 768, 1,280 x 1,024 and 2,048 x 1,536 pixels. Additional display development efforts include expanding the resolutions offered, increasing the quantity of display active matrix pixel arrays processed on each wafer by further reducing the display size, increasing the light throughput of our pixels, increasing manufacturing yields, and increasing the functionality of our HLA products.

We offer components such as optical lenses, back lights and ASICs that we have made to our specifications or are standard items that we buy and resell. The components that are made to order include either intellectual property we developed or licensed from third parties.

Headset Concept Design Products

Our headset concept design efforts are primarily focused on operating, application and noise cancellation software development, improving the optics in the display pod and reducing the size and power consumption of the unit and improving the overall fit and style of the concept design.

Funded Research and Development

We have entered into various development contracts with agencies and prime contractors of the U.S. government and commercial customers. These contracts help support the continued development of our core technologies. We intend to continue to pursue development contracts for applications that relate to our commercial and military product applications. Our contracts certain milestones relating to technology development and may be terminated prior to completion of funding. Our policy is to retain our proprietary rights with respect to the principal commercial applications of our technology. To the extent technology development has been funded by a U.S. federal agency, under applicable U.S. federal laws the federal agency has the right to obtain a non-exclusive, non-transferable,

irrevocable, fully paid license to practice or have practiced this technology for governmental use. For our commercial development agreements customers often obtain exclusive rights to a particular display or technology that is developed either permanently or for some period of time. Revenues attributable to research and development contracts for fiscal years 2014, 2013 and 2012 totaled $4.9 million, $2.3 million and $3.3 million, respectively.

Competition

Component Products

The commercial display market is highly competitive and is currently dominated by large Asian-based electronics companies including AUO, Himax, LG Display, Samsung, Sharp, Seiko and Sony. The display market consists of multiple segments, each focusing on different end-user applications applying different technologies. Competition in the display field is based on price and performance characteristics, product quality and the ability to deliver products in a timely fashion. The success of our display product offerings will also depend upon the adoption of our display products by consumers as an alternative to traditional active matrix LCDs and upon our ability to compete against other types of well-established display products and new emerging display products. Particularly significant is the consumer's willingness to use a near eye display device, as opposed to a direct view display which may be viewed from a distance of several inches to several feet. We cannot be certain that we will be able to compete against these companies and technologies, or that the consumer will accept the use of such eyewear in general or our partners' form factor specifically.

There are also a number of active matrix LCD and alternative display technologies in development and production. These technologies include plasma, organic light emitting diode (OLEDs) and virtual retinal displays, some of which target the high performance small form factor display markets in which our military display products are sold. There are many large and small companies that manufacture or have in development products based on these technologies. Our display products will compete with other displays utilizing these and other competing display technologies.

There are many companies whose sole business is the development and manufacture of optical lenses, backlights, ASICs and software. These companies may have significantly more intellectual property and experience than we do in the design and development of these components. We do not manufacture optical lenses, backlights, or ASICs but we either have them made to our specifications or buy standard off-the-shelf products.

Headset Concept Design Products

The markets our headset concept designs are targeted at currently use smartphones, laptop computers, personal computers, tablets, ruggedized portable computers referred to as "tough books”, and a variety of hand-held devices. This market is extremely competitive and is served by companies such as Panasonic, Toshiba, Dell, HTC, Hewlett Packard, Apple, Sony and Samsung. These companies are substantially larger than Kopin from revenue, cash flow and asset perspectives.

Patents, Proprietary Rights and Licenses

An important part of our product development strategy is to seek, when appropriate, protection for our products and proprietary technology through the use of various United States and foreign patents and contractual arrangements. We intend to prosecute and defend our proprietary technology aggressively. Many of our United States patents and applications have counterpart foreign patents, foreign applications or international applications through the Patent Cooperation Treaty. In addition, we have licensed United States patents and some foreign counterparts to these United States patents from MIT.

The process of seeking patent protection can be time consuming and expensive and we cannot be certain that patents will be issued from currently pending or future applications or that our existing patents or any new patents that may be issued will be sufficient in scope or strength to provide meaningful protection or any commercial advantage to us. We may be subject to or may initiate interference proceedings in the United States Patent and Trademark Office, which can demand significant financial and management resources. Patent applications in the United States typically are maintained in secrecy until they are published about eighteen months after their earliest claim to priority; and since publication of discoveries in the scientific and patent literature lags behind actual discoveries, we cannot be certain that we were the first to conceive of inventions covered by pending patent applications or the first to file patent applications on such inventions. We cannot be certain that our pending patent applications or those of our licensor's will result in issued patents or that any issued patents will afford protection against a competitor. In addition, we

cannot be certain that others will not obtain patents that we would need to license, circumvent or cease manufacturing and sales of products covered by these patents, nor can we be sure that licenses, if needed, would be available to us on favorable terms, if at all.

We cannot be certain that foreign intellectual property laws will protect our intellectual property rights or that others will not independently develop similar products, duplicate our products or design around any patents issued or licensed to us. Our products might infringe the patent rights of others, whether existing now or in the future. For the same reasons, the products of others could infringe our patent rights. We may be notified, from time to time, that we could be or we are infringing certain patents and other intellectual property rights of others. Litigation, which could be very costly and lead to substantial diversion of our resources, even if the outcome is favorable, may be necessary to enforce our patents or other intellectual property rights or to defend us against claimed infringement of the rights of others. These problems can be particularly severe in foreign countries. In the event of an adverse ruling in litigation against us for patent infringement, we might be required to discontinue

the use of certain processes, cease the manufacture, use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to patents of third parties covering the infringing technology. We cannot be certain that licenses will be obtainable on acceptable terms, if at all, or that damages for infringement will not be assessed or that litigation will not occur. The failure to obtain necessary licenses or other rights or litigation arising out of any such claims could adversely affect our ability to conduct our business as we presently conduct it.

We also attempt to protect our proprietary information with contractual arrangements and under trade secret laws. We believe that our future success will depend primarily upon the technical expertise, creative skills and management abilities of our officers and key employees rather than on patent ownership. Our employees and consultants generally enter into agreements containing provisions with respect to confidentiality and employees generally assign rights to us for inventions made by them while in our employ. Agreements with consultants generally provide that rights to inventions made by them while consulting for us will be assigned to us unless the assignment of rights is prohibited by the terms of any agreements with their regular employers. Agreements with employees, consultants and collaborators contain provisions intended to further protect the confidentiality of our proprietary information. To date, we have had no experience in enforcing these agreements. We cannot be certain that these agreements will not be breached or that we would have adequate remedies for any breaches. Our trade secrets may not be secure from discovery or independent development by competitors.

Government Regulations

We are subject to a variety of federal, state and local governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing process. The failure to comply with present or future regulations could result in fines being imposed on us, suspension of production or cessation of operations. Any failure on our part to control the use of, or adequately restrict the discharge of, hazardous substances, or otherwise comply with environmental regulations, could subject us to significant future liabilities. In addition, we cannot be certain that we have not in the past violated applicable laws or regulations, which violations could result in required remediation or other liabilities. We also cannot be certain that past use or disposal of environmentally sensitive materials in conformity with then existing environmental laws and regulations will protect us from required remediation or other liabilities under current or future environmental laws or regulations.

We are also subject to federal International Traffic in Arms Regulations (ITAR) laws which regulate the export of technical data and export of products to other nations which may use these products for military purposes. The failure to comply with present or future regulations could result in fines being imposed on us, suspension of production, or a cessation of operations. Any failure on our part to control the use of, or adequately restrict the discharge of, hazardous substances, or otherwise comply with environmental regulations, could subject us to significant future liabilities. Any failure on our part to obtain any required licenses for the export of technical data and/or export of our products or to otherwise comply with ITAR, could subject us to significant future liabilities. In addition, we cannot be certain that we have not in the past violated applicable laws or regulations, which violations could result in required remediation or other liabilities.

We are also subject to federal importation laws which regulate the importation of raw materials and equipment from other nations which are used in our products. The failure to comply with present or future regulations could result in fines being imposed on us, suspension of production, or a cessation of operations.

Investments in Related Businesses

We own 100% of the outstanding common stock of Forth Dimension Displays Ltd. (FDD) and we consolidate the financial results of FDD within our consolidated financial statements.

In 2013, we increased our ownership of Kowon Technology Co. LTD (Kowon) from 78% to 93% by purchasing stock from the minority stockholders for $3.7 million as part of a plan to cease Kowon's operations. We closed Kowon's manufacturing operations in 2013.

In April 2013, the Company acquired 51% of the outstanding stock of eMDT America, Inc. (eMDT), a private company, for $0.4 million and began consolidating eMDT into our financial statements in April of that year. During the second quarter of 2014, the Company paid approximately $0.3 million to acquire an additional 29% ownership in eMDT.

We own 58% of Intoware Ltd. (Intoware), a private company, located in the United Kingdom (formerly known as Ikanos Consulting Ltd). We acquired our interest in Intoware through two equity purchases in 2012 which totaled $3.2 million. We began consolidating Intoware into our financial statements on July 1, 2012.

We had a 12% interest in KoBrite, and accounted for our ownership interest using the equity method. We recorded equity losses from our investment in KoBrite of $0.1 million, $0.4 million and $0.6 million in fiscal years 2014, 2013 and 2012, respectively. During the quarter ended June 28, 2014, the Company wrote off its $1.3 million investment in Kobrite.

We had a 23% interest in Ask Ziggy which we accounted for under the equity method. As of year ended December 28, 2013, we determined the investment was impaired and we wrote off our investment. The Company continued to fund Ask Ziggy during the year ended December 27, 2014.

On January 16, 2013, we completed the sale of our III-V product line, including all of our interest in Kopin Taiwan Corp (KTC). Previously we owned approximately 90% of KTC and consolidated the financial statements of KTC as part of our financial statements. The Buyer renamed KTC to IQE Taiwan. One of our Directors is a chairman of IQE Taiwan and owns approximately 1% of the outstanding common stock of IQE Taiwan.

We may from time to time make further equity investments in these and other companies engaged in certain aspects of the display, electronics, optical and software industries as part of our business strategy. In addition, the wearable computing product market is relatively new and there may be other technologies we need to invest in to enhance our product offering. These investments may not provide us with any financial return or other benefit and any losses by these companies or associated losses in our investments may negatively impact our operating results. Certain of our officers and directors have invested in some of the companies we have invested in.

Employees

As of December 27, 2014, our consolidated business employed 197 full-time individuals and 1 part-time individual. Of these, 11 hold Ph.D. degrees in Material Science, Electrical Engineering or Physics. Our management and professional employees have significant prior experience in semiconductor materials, device transistor and display processing, manufacturing and other related technologies. However, our employees are located in the U.S., Europe and Asia and the laws regarding employee relationships are different by jurisdiction. None of our employees are covered by a collective bargaining agreement. We consider relations with our employees to be good.

Sources and Availability of Raw Materials and Components

We rely on third party independent contractors for certain integrated circuit chip sets and other critical raw materials such as special glasses, wafers and chemicals. In addition, our higher-level CyberDisplay assemblies, binocular display module, and other modules include lenses, backlights, printed circuit boards and other components that we purchase from third party suppliers. Some of these third party contractors and suppliers are small companies with limited financial resources. In addition, relative to the commercial market, the military buys a small number of units which prevents us from qualifying and buying components economically from multiple vendors. As a result, we are highly dependent on a select number of third party contractors and suppliers.

In addition, we also are subject to rules promulgated by the Securities Exchange Commission (SEC) in 2012 pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that require us to conduct due diligence on and disclose if we are able to determine whether certain materials (including tantalum, tin, gold and tungsten), known as conflict minerals, that originate from mines in the Democratic Republic of the Congo or certain adjoining countries (DRC), are used in our products. The DRC minerals report for a calendar year is due by the second quarter of the next calendar year and we are conducting appropriate diligence measures to comply with such requirements.

Web Availability

We make available free of charge through our website, www.kopin.com, our Annual Reports on Form 10-K and other reports that we file with the Securities and Exchange Commission, as well as certain of our corporate governance policies, including the charters for the Board of Directors' audit, compensation and nominating and corporate governance committees and our code of ethics, corporate governance guidelines and whistleblower policy. We will also provide to any person without

charge, upon request, a copy of any of the foregoing materials. Any such request must be made in writing to us, c/o Investor Relations, Kopin Corporation, 125 North Drive, Westborough, MA, 01581.

Executive Officers of the Registrant

The following sets forth certain information with regard to our executive officers as of March 7, 2015 (ages are as of December 27, 2014):

John C.C. Fan, age 71
President, Chief Executive Officer and Chairman
Founded Kopin in 1984

Richard A. Sneider, age 54
Treasurer and Chief Financial Officer
Joined Kopin in 1998

Hong Choi, age 63
Vice President and Chief Technology Officer
Joined Kopin in 2000

Bor-Yeu Tsaur, age 59
Executive Vice President—Display Operations
Joined Kopin in 1997

Michael Presz, age 61
Vice President—Government Programs and Special Projects
Joined Kopin in 1994

Item 1A. Risk Factors

We have experienced a history of losses and have a significant accumulated deficit. In addition we have had negative cash flow from operating activities in 2014 and 2013 and we expect to have negative cash flow from operating activities in 2015. Since inception, we have incurred significant net operating losses. As of December 27, 2014, we have an accumulated deficit of $175.9 million. At December 27, 2014 and December 28, 2013, we had $90.9 million and $112.7 million of cash and equivalents and marketable securities, respectively. The decline in our cash and equivalents and marketable securities is partially a result of our research and development investments in Wearable products. Our products are targeted towards the wearable market which we believe is still developing and our competitive strength is creating new technologies. Accordingly we believe it is important to continue to invest in research and development even during periods when we are not profitable. Our philosophy and strategies may result in our incurring losses from operations and negative cash flow.

The market segment for our Wearable products may not develop or may take longer to develop than we anticipate which may impact our ability to grow revenues. We have developed head-worn, voice and gesture controlled, hands-free cloud computing headset concept designs which we intend to license to customers and various components for wearable devices which we intend to sell to customers. We also plan to sell our display and other components either as part of the license arrangement. We refer to our headset concept designs and components as our Wearable products. Our success will depend on the acceptance of wearable products by consumers and in particular the widespread adoption of the headset format. We are unable to predict when or if consumers will adopt wearable products. Customers may determine that the headset is not comfortable, weighs too much, costs too much or provides too little functionality. In addition, the wearable headset products may be accepted by consumers but manufactures may choose to offer our competitors products or products which do not have our components in them. Our success in commercializing our Wearable products is very important in our ability to achieve positive cash flow and profitability. If we are unable to commercialize our wearable computing products we may not be able to increase revenues, achieve profitability or positive cash flow.

Our revenues and cash flows could be negatively affected if sales of our Display products for military applications significantly decline. The U.S. federal government has incurred and is expected to continue to incur large federal budget deficits and the U.S. federal government has passed legislation to reduce spending on military programs. In

addition, in 2013 some of our customers decided to purchase display products from our competitors for programs which we were previously the sole supplier. We expected 2014 revenues and the resulting cash flow from sales to military customers to decline. In the second quarter of 2014, we received unexpected orders for military products which resulted in additional military revenues in the third and fourth quarter of 2014. We expect those revenues to continue in the first quarter of 2015. We received the orders because a competitor was unable to deliver qualified products. We have been informed that the competitor has made improvements to their products and they are being qualified by our customers. Our ability to generate revenues and cash flow from sales to the U.S. military is dependent on our display products being qualified in new U.S. military programs and or remaining qualified in

existing US military programs and the U.S. military funding these new and existing programs. Our ability to generate revenues and cash flow from sales to the U.S. military is also dependent on winning contracts in competition against our competitors. If we are unable to be qualified into new U.S. military programs, remain qualified in existing programs, win orders against our competition or military programs are not funded our ability to generate revenues, achieve profitability and positive cash flow will be negatively impacted.

We depend on third parties to provide integrated circuit chip sets and critical raw materials for use with our headset concept design and display products and we periodically receive “end of life” notices from suppliers that they will no longer be providing a raw material. We do not manufacture the integrated circuit chip sets which are used to electronically interface between our display products and our customer's products. Instead, we rely on third party independent contractors for these integrated circuit chip sets. We purchase critical raw materials such as special glasses, wafers, adhesives, chemicals, lenses, backlights, printed circuit boards and other components from third party suppliers. Some of these third party contractors and suppliers are small companies with limited financial resources. In addition, relative to the commercial market, the military buys a small number of units which prevents us from qualifying and buying components economically from multiple vendors. We periodically receive notices from suppliers of our critical raw materials that they are will stop selling the raw materials. This requires us to identify another raw material to replace the discontinued one. We then have to internally re-qualify the display with the new material and we may be required to re-qualify the display with our customer. If any of these third party contractors or suppliers were unable or unwilling to supply these integrated circuit chip sets or critical raw materials to us, we would be unable to manufacture and sell our display products until a replacement material could be found. We may not be able to find a replacement material or if we are able to find a replacement material we may be unable to sell our products until they have been qualified both internal and with the customer. The U.S. military is expected to reduce its purchases which may result in lower demand for our products. Lower volume purchases may make it uneconomical for some of our suppliers to provide raw materials we need. We cannot assure investors that a replacement third party contractor or supplier could be found on reasonable terms or in a timely manner. Any interruption in our ability to manufacture and distribute our display products could cause our display business to be unsuccessful and the value of investors' investment in us may decline.

Our products could infringe on the intellectual property rights of others. Companies in software generation and the display industries steadfastly pursue and protect intellectual property rights. This has resulted in considerable and costly litigation to determine the validity of patents and claims by third parties of infringement of patents or other intellectual property. Our products could be found to infringe on the intellectual property rights of others. Other companies may hold or obtain patents or inventions or other proprietary rights in technology necessary for our business. Periodically companies inquire about our products and technology in their attempts to assess whether we violate their intellectual property rights. If we are forced to defend against infringement claims, we may face costly litigation, diversion of technical and management personnel, and product shipment delays, even if the allegations of infringement are unwarranted. If there is a successful claim of infringement against us and we are unable to develop non-infringing technology or license the infringed or similar technology on a timely basis, or if we are required to cease using one or more of our business or product names due to a successful trademark infringement claim against us, our business could be adversely affected.

The markets in which we operate are highly competitive and rapidly changing and we may be unable to compete successfully. There are a number of companies that develop or may develop products that compete in our targeted markets.

The individual components that we offer for sale (displays, optical lenses, backlights and ASICs) are also offered by companies whose sole business is the individual component. For example, there are companies whose sole business is to sell optical lenses. Accordingly, our strategy requires us to develop technologies and to compete in multiple markets. Some of our competitors are much larger than we are and have significantly greater financial, development and marketing resources than we do. The competition in these markets could adversely affect our operating results by

reducing the volume of the products we sell or the prices we can charge. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than we do.

Our success will depend substantially upon our ability to enhance our products and technologies and to develop and introduce, on a timely and cost-effective basis, new products and features that meet changing customer requirements and incorporate technological enhancements. If we are unable to develop new products and enhance functionalities or technologies to adapt to these changes, or if we are unable to realize synergies among our acquired products and technologies, our business will suffer.

Disruptions of our production of our Display products would adversely affect our operating results. If we were to experience any significant disruption in the operation of our facilities, we would be unable to supply our display products to our customers. Many of our sales contracts include financial penalties for late delivery. In the past, we experienced several power outages at our facilities which ranged in duration from one to four days. Additionally, as we introduce new equipment into our

manufacturing processes, our display products could be subject to especially wide variations in manufacturing yields and efficiency. We may experience manufacturing problems that would result in delays in product introduction and delivery or yield fluctuations. We are also subject to the risks associated with the shortage of raw materials used in the manufacture of our products.

Our ability to manufacture and distribute our Display products would be severely limited if the foundries that we rely on to manufacture integrated circuits for our Display products fail to provide those services. We depend principally on a Taiwanese foundry for the fabrication of integrated circuits for our display products. We have no long-term contracts with this foundry and from time to time we have been put on allocation which means the foundry will limit the amount of wafers they will process for us. If the foundry was to terminate its arrangement with us or become unable to provide the required capacity and quality on a timely basis, we may not be able to manufacture and ship our display products or we may be forced to manufacture them in limited quantities until replacement foundry services can be obtained. Furthermore, we cannot assure investors that we would be able to establish alternative manufacturing and packaging relationships on acceptable terms.

Our reliance on this foundry involves certain risks, including but not limited to:

- Lack of control over production capacity and delivery schedules;
- Limited control over quality assurance, manufacturing yields and production costs;
- The risks associated with international commerce, including unexpected changes in legal and regulatory requirements, changes in tariffs and trade policies and political and economic instability; and
- Natural disasters such as earthquakes, tsunami, mudslides, drought, hurricanes and tornadoes.

Due to natural disasters such as earthquakes and typhoons that have occasionally occurred in Taiwan, many Taiwanese companies, including the Taiwanese foundry we use, have experienced related business interruptions. Our business could suffer significantly if either of the foundries we use had operations which were disrupted for an extended period of time due to natural disaster, political unrest or financial instability. In addition, our display products are manufactured on 6-inch and 8-inch silicon wafers. We currently do not anticipate redesigning all of our displays made on 6-inch wafers so they can be manufactured on 8-inch wafers. Our current military products are primarily manufactured on 6-inch wafers. We cannot be assured that if the 6-inch or 8-inch manufacturing facilities we use were damaged, they would be restored, or that our foundry service providers will not discontinue the operation of their 6-inch manufacturing lines. If the 6-inch manufacturing lines were discontinued and the displays had to be redesigned we may need to have the displays re-qualified by our customers, which would adversely affect our business until such qualification is complete.

Our headset concept system is dependent on software which we have limited experience in developing, marketing or licensing. Our headset concept designs include a combination of commercially available software, such as Microsoft Windows CE and Android, voice activated software technologies, such as Nuance Dragon NaturallySpeaking, and operating and speech enhancement software that we internally developed or acquired. We have little experience in developing, marketing or licensing software. If we are unable to integrate internally developed and or acquired software in our headset concept designs we may not be able to license the designs. The market demand for our headset concept designs or the products our customers may develop based on our concept designs is dependent on our ability to collaborate with software developers who write application software (“apps”) in order to create utility in our customer's products. If we are unable to develop, license or acquire software or if we or the market in general does not create a sufficient body of application software our concept designs may not be accepted by the market and we may not be able to increase revenues, achieve profitability or positive cash flow.

We license intellectual property rights of others. Included in our headset concept systems is software which we license from other companies. Should we violate the terms of a license our license could be being canceled. The companies may decide to stop supporting the software we license or new versions of the software may not be

compatible with our software which would require us to rewrite our software which we may not be able to do. The license fees we pay may be increased which would negatively affect our ability to achieve profitability and positive cash flow. If we are unable to obtain and or maintain existing software license relationships our ability to grow revenue and achieve profitability and positive cash flow may be negative affected.

Our headset concept systems use software that we license from other companies (Licensors) and requires us to access the Licensor's data centers and interruptions or delays in service from data center hosting facilities could impair our customer's products. Any damage to, or failure of, the systems of our Licensors generally could result in interruptions in service to our customers. Interruptions in service to our customers may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their contracts and reduce our ability to attract new customers.

The market for cloud-based applications may develop more slowly than we expect. Our success will depend, to some extent, on the willingness of businesses to accept cloud-based services for applications that they view as critical to the success of their business. Many companies have invested substantial effort and financial resources to integrate traditional enterprise software into their businesses and may be reluctant or unwilling to switch to a different application or to migrate these applications to cloud-based services. Other factors that may affect market acceptance of our application include:

- the security capabilities, reliability and availability of cloud-based services;
- our ability to implement upgrades and other changes to our software without disrupting our service;
- the level of customization or configuration we offer; and
- the price, performance and availability of competing products and services.

The market for these services may not develop further, or may develop more slowly than we expect, either of which would negatively affect our ability to grow revenues, achieve profitability and generate positive cash flow.

We may not be successful in protecting our intellectual property and proprietary rights and we may incur substantial costs in defending our intellectual property. Our success depends in part on our ability to protect our intellectual property and proprietary rights. We have obtained certain domestic and foreign patents and we intend to continue to seek patents on our inventions when appropriate. We also attempt to protect our proprietary information with contractual arrangements and under trade secret laws. Our employees and consultants generally enter into agreements containing provisions with respect to confidentiality and the assignment of rights to inventions made by them while in our employ. These measures may not adequately protect our intellectual and proprietary rights. Existing trade secret, trademark and copyright laws afford only limited protection and our patents could be invalidated or circumvented. Moreover, the laws of certain foreign countries in which our products are or may be manufactured or sold may not fully protect our intellectual property rights. Misappropriation of our technology and the costs of defending our intellectual property rights from misappropriation could substantially impair our business. If we are unable to protect our intellectual property and proprietary rights, our business may not be successful and the value of investors' investment in us may decline.

We have a $15 million receivable due January 16, 2016 which if not paid would affect our cash flow. The Company has a $15 million receivable in connection with the sale of its III-V product line and investment in KTC, which is due January 16, 2016. The buyer has outstanding debt and the repayment of the receivable is subject to the Buyer remaining within its debt compliance obligations at the time of repayment. If the Buyer is unable to pay us the $15 million our cash flow would be negatively impacted.

Our business could suffer if we lose the services of, or fail to attract, key personnel. In order to continue to provide quality products in our rapidly changing business, we believe it is important to retain personnel with experience and expertise relevant to our business. Our success depends in large part upon a number of key management and technical employees. The loss of the services of one or more key employees, including Dr. John C.C. Fan, our President and Chief Executive Officer, could seriously impede our success. We do not maintain any “key-man” insurance policies on Dr. Fan or any other employees. In addition, due to the level of technical and marketing expertise necessary to support our existing and new customers, our success will depend upon our ability to attract and retain highly skilled management, technical, and sales and marketing personnel. Competition for highly skilled personnel is intense and there may be only a limited number of persons with the requisite skills to serve in these positions. If the display markets experience an upturn, we may need to increase our workforce. Due to the competitive nature of the labor markets in which we operate, we may be unsuccessful in attracting and retaining these personnel. Our inability to attract and retain key personnel could adversely affect our ability to develop and manufacture our products.

Our customers who purchase display products for military applications typically incorporate our products into their products which are sold to the U.S. government under contracts. U.S. government contracts generally are not fully

funded at inception and may be terminated or modified prior to completion, which could adversely affect our business. Congress funds the vast majority of the federal budget on an annual basis, and Congress often does not provide agencies with all the money requested in their budget. Many of our customers' contracts cover multiple years and, as such, are not fully funded at contract award. If Congress or a U.S. government agency chooses to spend money on other programs, our customer contracts may be terminated for convenience. Federal laws, collectively called the Anti-Deficiency Act, prohibit involving the government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law. Therefore, the Anti-Deficiency Act indirectly regulates how the agency awards our contracts and pays our invoices. Federal government contracts generally contain provisions, and are subject to laws and regulations, that provide the federal government rights and remedies not typically found in commercial contracts, including provisions permitting the federal government to, among other provisions: terminate our existing contracts; modify some of the terms and conditions in our existing contracts; subject the award to protest or challenge by competitors; suspend work under existing multiple year contracts and related delivery orders; and claim rights in technologies and systems invented, developed or produced by us.

The federal government may terminate a contract with us or our customer either “for convenience” (for instance, due to a change in its perceived needs) or if we default due to our failure or the failure of a subcontractor to perform under the contract. If the federal government terminates a contract with our customer our contract with our customers generally would entitle us to recover only our incurred or committed costs, settlement expenses and profit on the work completed prior to termination. However, under certain circumstances, our recovery costs upon termination for convenience of such a contract may be limited. As is common with government contractors, we have experienced occasional performance issues under some of our contracts. We may in the future receive show-cause or cure notices under contracts that, if not addressed to the federal government's satisfaction, could give the government the right to terminate those contracts for default or to cease procuring our services under those contracts.

In addition, U.S. government contracts and subcontracts typically involve long purchase and payment cycles, competitive bidding, qualification requirements, delays or changes in funding, extensive specification and performance requirements, price negotiations and milestone requirements. Each U.S. government agency often also maintains its own rules and regulations with which we must comply and which can vary significantly among agencies.

Most of our military sales are on a fixed-price basis, which could subject us to losses if there are cost overruns. Under a fixed-price contract, we receive only the amount indicated in the contract, regardless of the actual cost to produce the goods. While firm fixed-price contracts allow us to benefit from potential cost savings, they also expose us to the risk of cost overruns. If the initial estimates that we use to calculate the sales price and the cost to perform the work prove to be incorrect, we could incur losses. In addition, some of our contracts have specific provisions relating to cost, scheduling, and performance. If we fail to meet the terms specified in those contracts, then our cost to perform the work could increase, which would adversely affect our financial position and results of operations. Some of the contracts we bid on have “Indefinite Delivery, Indefinite Quantity” or IDIQ provisions. This means we are bidding a fixed price but are not assured of the quantity the government will buy or when it will buy during the term of the contract. This means we are exposed to the risk of price increases for labor, overhead and raw materials during the term of the contract. We may incur losses on fixed-price and IDIQ contracts that we had expected to be profitable, or such contracts may be less profitable than expected, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We generally do not have long-term contracts with our customers, which makes forecasting our revenues and operating results difficult. We generally do not enter into long-term agreements with our customers obligating them to purchase our products. Our business is characterized by short-term purchase orders and shipment schedules and we generally permit orders to be canceled or rescheduled before shipment without significant penalty. As a result, our customers may cease purchasing our products at any time, which makes forecasting our revenues difficult. In addition, due to the absence of substantial non-cancelable backlog, we typically plan our production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. Our operating results are difficult to forecast because we are continuing to invest in capital equipment and increasing our operating expenses for new product development. If we fail to accurately forecast our revenues and operating results, our business may not be successful and the value of investors' investment in us may decline.

If we fail to keep pace with changing technologies, we may lose customers. Rapidly changing customer requirements, evolving technologies and industry standards characterize the display industries. To achieve our goals, we need to enhance our existing products and develop and market new products that keep pace with continuing changes in industry standards, requirements and customer preferences. If we cannot keep pace with these changes, our business could suffer.

If our security systems are penetrated and confidential and or proprietary information were taken we could be subject to fines, law suits and loss of customers. We rely on our electronic information systems to perform the routine

transactions to run our business. We transact business over the Internet with customers, vendors and our subsidiaries. We have implemented security measures to protect unauthorized access to this information. We have also implemented security policies which limit access via the Internet from the company to the outside world based on the individual's position in the company. We routinely receive security patches for the software we use from the software providers. Our primary concerns are inappropriate access to personnel information, information covered under the International Traffic in Arms Regulation, product designs and manufacturing information, financial information and our intellectual property, trade secrets and know-how. If our security systems are penetrated and confidential and or proprietary information were taken we could be subject to fines, law suites and loss of customers.

We may have to record additional intangible assets and/or goodwill impairment losses. In fiscal year 2013 we recorded intangible asset impairment charges of $1.5 million related to our acquisitions of Intoware and Forth Dimension Displays (FDD). In 2012, we recorded goodwill impairment charges of $1.7 million related to our acquisition of FDD. During 2013, we

recorded $0.4 million of goodwill related to our acquisition of eMDT, Inc. and, in 2012, we recorded $0.7 million of goodwill and $0.6 million in intangible assets related to Intoware. We may have to record additional goodwill write downs if we are unable to generate positive cash flow from the sale of wearable products which will negatively affect our financial results.

A disruption to our information technology systems could significantly impact our operations and impact our revenue and profitability. We maintain proprietary data processing systems and use customized software systems. We also use software packages which are no longer supported by their developer. An interruption to these systems for an extended period may impact our ability to operate the businesses and process transactions which could result in a decline in sales and affect our ability to achieve or maintain profitability.

Fluctuations in operating results make financial forecasting difficult and could adversely affect the price of our common stock. Our quarterly and annual revenues and operating results may fluctuate significantly for numerous reasons, including:

- The timing and successful introduction of additional manufacturing capacity;
- The timing of the initial selection of our Wearable technology and display products as component in our customers' new products;
- Availability of interface electronics for our display products;
- Competitive pressures on selling prices of our products;
- The timing and cancellation of customer orders;
- Our ability to introduce new products and technologies on a timely basis;
- Our ability to successfully reduce costs;
- The cancellation of U.S. government contracts; and
- Our ability to secure agreements from our major customers for the purchase of our products.

We typically plan our production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. Our operating results are difficult to forecast because we continue to invest in capital equipment and increase our operating expenses for new product development.

As a result of these and other factors, investors should not rely on our revenues and our operating results for any one quarter or year as an indication of our future revenues or operating results. If our quarterly revenues or results of operations fall below expectations of investors or public market analysts, the price of our common stock could fall substantially.

If we fail to comply with complex procurement laws and regulations, we could lose business and be liable for various penalties or sanctions. We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts. These laws and regulations affect how we conduct business with our federal government contracts. In complying with these laws and regulations, we may incur additional costs, and non-compliance may also allow for the assignment of fines and penalties, including contractual damages. Among the more significant laws and regulations affecting our business are the following:

- The Federal Acquisition Regulation, which comprehensively regulates the formation, administration and performance of federal government contracts;
- The Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations;
- The Cost Accounting Standards and Cost Principles, which impose accounting requirements that govern our right to reimbursement under certain cost-based federal government contracts; and
- Laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes and the export of certain products, services and technical data. We engage in international work falling under the jurisdiction of U.S. export control laws. Failure to comply with these control regimes can lead to

severe penalties, both civil and criminal, and can include debarment from contracting with the U.S. government.

Our contracting agency customers may review our performance under and compliance with the terms of our federal government contracts. If a government review or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties or administrative sanctions, including

- Termination of contracts;
- Forfeiture of profits;
- Cost associated with triggering of price reduction clauses;
- Suspension of payments;
- Fines; and
- Suspension or debarment from doing business with federal government agencies.

Additionally, the False Claims Act provides for potentially substantial civil penalties where, for example, a contractor presents a false or fraudulent claim to the government for payment or approval. Actions under the civil False Claims Act may be brought by the government or by other persons on behalf of the government (who may then share a portion of any recovery).

If we fail to comply with these laws and regulations, we may also suffer harm to our reputation, which could impair our ability to win awards of contracts in the future or receive renewals of existing contracts. If we are subject to civil and criminal penalties and administrative sanctions or suffer harm to our reputation, our current business, future prospects, financial condition, or operating results could be materially harmed.

The government may also revise its procurement practices or adopt new contracting rules and regulations, including cost accounting standards, at any time. Any new contracting methods could be costly to satisfy, be administratively difficult for us to implement and could impair our ability to obtain new contracts.

A decline in the U.S. government defense budget, changes in spending or budgetary priorities, prolonged U.S. government shutdown or delays in contract awards may significantly and adversely affect our future revenues, cash flow and financial results. The Budget Control Act of 2011 enacted 10-year discretionary spending caps which are expected to generate over $1 trillion in savings for the U.S. government, a substantial portion of which comes from Department of Defense baseline spending reductions. There remains much uncertainty about the level of cuts that will be required for government fiscal year 2015 and the impact those cuts will have on contractors supporting the government. In light of the current uncertainty, we are not able to predict the potential impact of reduced military expenditures on our Company or our financial results.

Customer demands and new regulations related to conflict-free minerals may adversely affect us. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”) imposes new disclosure requirements regarding the use of “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries in products, whether or not these products are manufactured by third parties. These new requirements could affect the pricing, sourcing and availability of minerals used in the manufacture of semiconductor devices (including our products). We will incur additional costs associated with complying with the disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. Our supply chain is complex and we may be unable to verify the origins for all metals used in our products. We purchase materials from foreign sources and they may not cooperate and provide us with the necessary information to allow us to comply with the Act. This may require us to find alternative sources which could delay product shipments. We may also encounter challenges with our customers and stockholders if we are unable to certify that our products are conflict free.

We may incur significant liabilities if we fail to comply with stringent environmental laws and regulations and the International Traffic in Arms Regulations (ITAR) or if we did not comply with these regulations in the past. We are subject to a variety of federal, state and local governmental regulations related to the use, storage, discharge and disposal of toxic or otherwise hazardous chemicals used in our manufacturing process. We are also subject to federal ITAR laws which regulate the export of technical data and export of products to other nations which may use these products for military purposes. The failure to comply with present or future regulations could result in fines being imposed on us, suspension of production, or a cessation of operations. Any failure on our part to control the use of, or adequately restrict the discharge of, hazardous substances, or otherwise comply with environmental regulations, could subject us to significant future liabilities. Any failure on our part to obtain any required licenses for the export of technical data and/or export of our products or to otherwise comply with ITAR, could subject us to significant future liabilities. In addition, we cannot be certain that we have not in the past violated applicable laws or regulations, which violations could result in required remediation or other liabilities. We also cannot be certain that past use or disposal of environmentally sensitive materials in conformity with then existing environmental laws and regulations will protect us from required remediation or other liabilities under current or future environmental laws or regulations.

We may be unable to modify our products to meet regulatory or customer requirements. From time to time our display products are subject to new domestic and international requirements such as the European Union's Restriction on Hazardous Substances (RoHS) Directive. If we are unable to comply with these regulations we may not be permitted to ship our products, which would adversely affect our revenue and ability to maintain profitability.

We may pursue acquisitions and investments that could adversely affect our business. In the past we have made, and in the future we may make, acquisitions of, and investments in, businesses, products and technologies that could complement or expand our business. If we identify an acquisition candidate, we may not be able to successfully integrate the acquired businesses, products or technologies into our existing business and products. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, amortization expenses and write-downs of acquired assets. In 2014, 2012 and 2011 we acquired 29% of the outstanding shares of eMDT Inc. for 80% ownership, 58% of the outstanding shares of Intoware Consulting Ltd. and 100% of the outstanding shares of Forth Dimension Displays Ltd. (FDD), respectively. If we are unable to operate eMDT, Intoware and FDD profitably, our results of operations will be

negatively affected. We perform periodic reviews to determine if these investments are impaired, but such reviews are difficult and rely on significant judgment about the company's technology, ability to obtain customers, and ability to become cash flow positive and profitable. We may take future impairment charges which will have an adverse impact of on our results of operations.

We plan on adopting the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework as revised in 2013 in 2015 but may not meet its requirements On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its revisions and updates to the 1992 document Internal Control - Integrated Framework. COSO's goal in updating the framework was to increase its relevance in the increasingly complex and global business environment so that organizations worldwide can better design, implement, and assess internal control. We plan on adopting the revised framework in our fiscal year 2015 but we may not meet its requirements which may affect our ability to meet the rules and regulations of the Security and Exchange Commission.

Investors should not expect to receive dividends from us. We have not paid cash dividends in the past, however, in the future we may determine it is in the best interest of the stockholders to do so. Historically our earnings, if any, have been retained for the development of our businesses.

Our stock price may be volatile in the future. The trading price of our common stock has been subject to wide fluctuations in response to quarter-to-quarter variations in results of operations, announcements of technological innovations or new products by us or our competitors, general conditions in the wireless communications, semiconductor and display markets, changes in earnings estimates by analysts or other events or factors. In addition, the public stock markets recently have experienced extreme price and trading volatility. This volatility has significantly affected the market prices of securities of many technology companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease our 74,000 square foot production facility in Westborough, Massachusetts, of which 10,000 square feet is contiguous environmentally controlled production clean rooms operated between Class 10 and Class 1,000 levels. The lease expires in 2023. In addition to our Massachusetts facility, we lease a 5,800 square foot design facility in Scotts Valley, California for developing prototypes of products incorporating our CyberDisplay product and a 6,300 square foot facility in Santa Clara, California which houses our wearable computing Tech center and ASIC development. These facility leases expire in 2015 and 2016, respectively.

Our subsidiary Kowon Technology Co., LTD, (Kowon) owns two adjacent facilities in Kyungii-Do, South Korea, in which it manufactured its products and in which its corporate headquarters are located. These facilities occupy an aggregate of 28,000 square feet. Production ceased at the Kowon facility in 2013. Forth Dimension Displays, our subsidiary in Scotland, leases 20,000 square feet in Dalgety Bay. This facility's lease expires in 2016. Intoware Ltd., our subsidiary in the United Kingdom, leases two properties which occupy an aggregate of 7,000 square feet. These leases expire in 2016 and 2017.

At this time we believe these properties are suitable for our needs for the foreseeable future.

Item 3. Legal Proceedings

We may engage in legal proceedings arising in the ordinary course of business. Claims, suits, investigations and proceedings are inherently uncertain and it is not possible to predict the ultimate outcome of such matters and our business, financial condition, results of operations or cash flows could be affected in any particular period.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Global Market under the symbol "KOPN." The following table sets forth, for the quarters indicated, the range of high and low sale prices for the Company's common stock as reported on the NASDAQ Global Market for the periods indicated.

	High	Low
Fiscal Year Ended December 27, 2014		
First Quarter	$4.49	$3.56
Second Quarter	3.82	2.92
Third Quarter	4.32	3.03
Fourth Quarter	3.80	3.10
Fiscal Year Ended December 28, 2013		
First Quarter	$3.71	$3.17
Second Quarter	3.78	3.13
Third Quarter	4.33	3.30
Fourth Quarter	4.28	3.43

As of March 5, 2015, there were approximately 454 stockholders of record of our common stock, which does not reflect those shares held beneficially or those shares held in "street" name.

In the past three years we have not sold any securities which were not registered under the Securities Act.

We have not paid cash dividends in the past, nor do we expect to pay cash dividends for the foreseeable future. We anticipate that earnings, if any, will be retained for the development of our businesses.

Equity Compensation Plan Information

The following table sets forth information as of December 27, 2014 about shares of the Company's common stock issuable upon exercise of outstanding options, warrants and rights and available for issuance under our existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a)	
Total equity compensation plans approved by security holders (1)	130,500	$ 3.49	3,008,080	(2)

(1) Consists of the 2001 Equity Incentive Plan and the 2010 Equity Incentive Plan.

(2) Shares available under the 2010 Equity Incentive Plan.

Company Stock Performance

The following graph shows a five-year comparison of cumulative total shareholder return for the Company, the NASDAQ US Benchmark TR Index and the S&P 500 Information Technology index. The graph assumes $100 was invested in each of the Company's common stock, the NASDAQ US Benchmark TR Index and the S&P 500 Information Technology index on December 27, 2009. Data points on the graph are annual. Note that historical price performance is not necessarily indicative of future performance.

Kopin Corporation
S&P 500 Information Technology Index
NASDAQ US Benchmark TR Index

Issuer Purchase of Equity Securities
On March 20, 2013, the Company announced that its Board of Directors authorized a stock repurchase program of up to $30 million of the Company's common stock. Pursuant to the stock repurchase program, the Company may purchase in one or more open market or private transactions up $30 million of shares of the Company's common stock. The stock repurchase program terminated on March 17, 2014.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
December 29, 2013 - January 25, 2014,	69,721	$4.28	69,721	$21,709,427
January 26, 2014 - February 22, 2014	—		—	$21,709,427
February 23, 2013 - March 17, 2014	—		—	$21,709,427
Total	69,721	$4.28	69,721	

Item 6. Selected Financial Data

This information should be read in conjunction with our consolidated financial statements and notes thereto, and our "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K. We have revised the prior period amounts for the sale of the III-V product line, which is reflected as discontinued operations.

	Fiscal Year Ended				
	2014	2013	2012	2011	2010
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Net component revenues	$26,957	$20,575	$31,299	$59,509	$54,969
Research and development revenues	4,851	2,323	3,343	5,150	3,172
Total revenues	31,808	22,898	34,642	64,659	58,141
Expenses:					
Cost of component revenues	19,638	20,655	22,042	34,659	35,597
Research and development—funded programs	5,237	1,551	2,178	3,341	2,175
Research and development—internal	15,499	15,983	12,121	13,218	10,972
Selling, general and administrative	19,909	19,125	17,166	15,991	12,322
Impairment of intangible assets and goodwill	—	1,511	1,705	5,000	—
	60,283	58,825	55,212	72,209	61,066
Loss from operations	(28,475)	(35,927)	(20,570)	(7,550)	(2,925)
Other income and (expense):					
Interest income	966	1,119	1,126	1,291	1,978
Other income and (expense), net	271	235	174	143	(31)
Foreign currency transaction gains (losses)	92	(387)	(1,032)	10	(304)
Impairment of investments	(1,319)	(5,000)	—	—	—
Loss on remeasurement of investment in Intoware	—	—	(558)	—	—
Other-than-temporary impairment of marketable debt securities	—	—	—	(151)	—
Gain on sales of investments	—	1,899	856	369	2,598
Gain on sales of patents	—	—	—	156	770
	10	(2,134)	566	1,818	5,011
(Loss) income before benefit (provision) for income taxes, equity losses in unconsolidated affiliates and net loss (income) of noncontrolling interest	(28,465)	(38,061)	(20,004)	(5,732)	2,086
Tax benefit (provision)	180	12,933	(1,099)	—	54
(Loss) income before equity losses in unconsolidated affiliates and net loss (income) of noncontrolling interest	(28,285)	(25,128)	(21,103)	(5,732)	2,140
Equity losses in unconsolidated affiliates	(386)	(625)	(680)	(297)	(600)
(Loss) income from continuing operations	$(28,671)	$(25,753)	$(21,783)	$(6,029)	$1,540
Income from discontinued operations, net of tax	—	20,147	2,789	9,713	7,300

Net (loss) income	(28,671)	(5,606)	(18,994)	3,684	8,840

Net loss (income) attributable to the noncontrolling interest	459	896	632	(605)	(11)
Net (loss) income attributable to the controlling interest	$(28,212)	$(4,710)	$(18,362)	$3,079	$8,829
Net (loss) income per share:					
Basic:					
Continuing operations	$(0.45)	$(0.40)	$(0.33)	$(0.10)	$0.02
Discontinued operations	—	0.32	0.04	0.15	0.12
Net (loss) income per share:	$(0.45)	$(0.08)	$(0.29)	$0.05	$0.14
Diluted:					
Continuing operations	$(0.45)	$(0.40)	$(0.33)	$(0.10)	$0.02
Discontinued operations	—	0.32	0.04	0.15	0.11
Net (loss) income per share:	$(0.45)	$(0.08)	$(0.29)	$0.05	$0.13
Weighted average number of common shares outstanding:					
Basic	62,639	62,348	63,618	64,406	66,020
Diluted	62,639	62,348	63,618	65,234	66,712

	Fiscal Year Ended				
	2014	2013	2012	2011	2010
Balance Sheet Data:					
Cash and equivalents and marketable debt securities	$90,859	$112,729	$92,485	$105,419	$110,947
Working capital	86,682	108,369	106,791	123,257	132,098
Total assets	122,941	146,132	176,209	193,872	192,096
Long-term obligations	311	329	946	1,296	945
Total stockholders' equity	109,847	134,563	155,086	170,097	170,625

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and notes to those statements and other financial information appearing elsewhere in this Annual Report on Form 10-K. The following discussion contains forward looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in the forward looking statements as a result of a number of factors, including the risks discussed in Item 1A "Risk Factors", and elsewhere in this Annual Report on Form 10-K.

Management's discussion and analysis of our financial condition and results of operations are based upon our audited consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition under the percentage-of-completion method, bad debts, inventories, warranty reserves, investment valuations, valuation of stock compensation awards, recoverability of deferred tax assets, liabilities for uncertain tax positions and contingencies. We base our estimates 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 carrying values of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions.

The prior period amounts have been revised for the impact of discontinued operations due to the sale of our III-V product line, including our KTC subsidiary. Our financial results for prior periods have also been revised, in accordance with U.S. GAAP, to reflect certain changes to the business and other matters.

We believe the following critical accounting policies are most affected by our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

We recognize revenue if four basic criteria have been met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred and services rendered; (3) the price to the buyer is fixed or determinable; and (4) collectability is reasonably assured. We do not recognize revenue for products prior to customer acceptance unless we believe the product meets all customer specifications and has a history of consistently achieving customer acceptance of the product. 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.

We recognize revenues from long-term research and development government contracts on the percentage-of-completion method of accounting as work is performed, based upon the ratio of costs or hours already incurred to the estimated total cost of completion or hours of work to be performed. Revenue recognized at any point in time is limited to the amount funded by the U.S. government or contracting entity. We recognize revenue for product development and research contracts that have established prices for distinct phases when delivery and acceptance of the deliverable for each phase has occurred. In some instances, we are contracted to create a deliverable which is anticipated to go into full production. In those cases, we discontinue the percentage-of-completion method after formal qualification of the deliverable has been completed and revenue is then recognized based on the criteria established for sale of products. In certain instances qualification may be achieved and delivery of production units may commence however our customer may have either identified new issues to be resolved or wish to incorporate a newer display technology. In these circumstances new units delivered will continue to be accounted for under the criteria established for sale of products. Under certain of our research and development contracts, we recognize revenue using a milestone methodology. This revenue is recognized when we achieve specified milestones based on our past performance.

We classify amounts earned on contracts in progress that are in excess of amounts billed as unbilled receivables and we classify amounts received in excess of amounts earned as billings in excess of revenues earned. We invoice based on dates specified in the related agreement or in periodic installments based upon our invoicing cycle. We recognize the entire amount of an estimated ultimate loss in our financial statements at the time the loss on a contract becomes known.

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. We have accounting policies in place to address these as well as other contractual and business arrangements to properly account for long-term contracts. 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 and profits would be negatively impacted.

Bad Debt

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This estimate is based on an analysis of specific customer creditworthiness and historical bad debts experience. If the financial condition of our customers were to deteriorate, resulting in their inability to make future payments, additional allowances may be required.

Inventory

We provide a reserve for estimated obsolete or unmarketable inventory based on assumptions about future demand and market conditions and our production plans. Inventories that are obsolete or slow moving are generally fully reserved (representing the estimated net realizable value) as such information becomes available. Our display products are manufactured based upon production plans whose critical assumptions include non-binding demand forecasts provided by our customers, lead times for raw materials, lead times for wafer foundries to perform circuit processing and yields. If a customer were to cancel an order or actual demand was lower than forecasted demand, we may not be able to sell the excess display inventory and additional reserves would be required. If we were unable to sell the excess inventory, we would establish reserves to reduce the inventory to its estimated realizable value (generally zero).

Investment Valuation

We periodically make equity investments in private companies, accounted for on the cost or equity method, whose values are difficult to determine. When assessing investments in private companies for an other-than-temporary decline in value, we consider such factors as, among other things, the share price from the investee's latest financing round, the performance of the investee in relation to its own operating targets and its business plan, the investee's revenue and cost trends, the liquidity and cash position, including its cash burn rate and market acceptance of the investee's products and services. Because these are private companies which we do not control we may not be able to obtain all of the information we would want in order to make a complete assessment of the investment on a timely basis. Accordingly, our estimates may be revised if other information becomes available at a later date.

In addition to the above we make investments in government and agency-backed securities and corporate debt securities. For all of our investments we provide for an impairment valuation if we believe a decline in the value of an investment is other-than-temporary, which may have an adverse impact on our results of operations. The determination of whether a decline in value is other-than-temporary requires that we estimate the cash flows we expect to receive from the security. We use publicly available information such as credit ratings and financial information of the entity that issued the security in the development of our expectation of the cash flows to be received. Historically, we have periodically recorded other than temporary impairment losses.

Product Warranty

We generally sell products with a limited warranty of product quality and a limited indemnification of customers against intellectual property infringement claims related to our products. We accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated. As of December 27, 2014, we had a warranty reserve of $0.7 million, which represents the estimated liabilities for warranty claims in process, potential warranty issues customers have notified us about and an estimate based on historical failure rates. For the fiscal years 2014, 2013 and 2012, our warranty claims and reversals were approximately $0.4 million, $0.8 million and $2.2 million, respectively. If our estimates for warranty claims are incorrect, our profits would be impacted.

Income Taxes

We have historically incurred domestic operating losses from both a financial reporting and tax return standpoint. We establish valuation allowances if it appears more likely than not that our deferred tax assets will not be realized. These

judgments are based on our projections of taxable income and the amount and timing of our tax operating loss carryforwards and other deferred tax assets. Given our federal operating tax loss carryforwards, we do not expect to pay domestic federal taxes in the near term. It is possible that we could pay domestic alternative minimum taxes and state income taxes. We are also subject to foreign taxes from our Korean and U.K. subsidiary operations.

Our income tax provision is based on calculations and assumptions that will be subject to examination by tax authorities. Despite our history of operating losses there can be exposures for state taxes, federal alternative minimum taxes or foreign tax that may be due. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. Should the actual results differ from our estimates, we would have to adjust the income tax provision in the period in which the facts that give rise to the revision become known. Such adjustment could have a material impact on our results of operations. We have historically established valuation allowances against all of our net deferred tax assets because of our history of generating operating losses and restrictions on the use of certain items. Our evaluation of the recoverability of deferred tax assets has also included analysis of the expiration dates of net operating loss carryforwards. In forming our conclusions as to whether the deferred tax assets are more likely than not to be realized we consider the sources of our income and the projected stability of those sources and product life cycles. Over the last three fiscal years a significant component of our income has been derived from sales of higher margin military products to the U.S. government. If, as expected, the U.S. government significantly reduces funding for these programs our results of operations will be adversely affected. In assessing our ability to realize our domestic deferred tax assets in the future, we consider the potential impact of the U.S. government's federal budget deficit on the U.S. military programs in which we currently participate and those programs in which we anticipate participating in the future. A similar analysis is performed with respect to our foreign subsidiaries.

Stock Compensation

There were no stock options granted in fiscal years 2014, 2013 or 2012. The fair value of nonvested restricted common stock awards is generally the market value of the Company's equity shares on the date of grant. The nonvested common stock awards require the employee to fulfill certain obligations, including remaining employed by the Company for certain periods of time (the vesting period) and in certain cases meeting performance or market criteria. The performance or market criteria may consist of the achievement of the Company's annual incentive plan goals, technology development or the Company’s stock attaining a certain price for a period of time. For nonvested 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 nonvested 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. For awards that vest upon our stock price achieving a certain price for a period of time the compensation expense associated with this award is recognized over the derived service period.

Results of Operations

On January 16, 2013, we completed the sale of our III-V product line, including all of the outstanding equity interest in KTC Wireless, LLC (KTC) a wholly-owned subsidiary of the Company, to IQE KC, LLC (IQE) and IQE plc (Parent, and collectively with IQE, the Buyer). Our III-V products primarily consisted of our Gallium Arsenide-based HBT transistor wafers. The aggregate purchase price was approximately $75 million, subject to certain adjustments, including working capital adjustments and escrow. Upon agreement of the final working capital and other adjustments the net purchase price was $70.2 million, and the gain on the sale, net of tax, was $20.1 million. Under the terms of the purchase agreement, $55 million was paid to us in January 2013, $0.2 million was paid in April 2013 and the remaining $15 million is scheduled to be paid to us on the third anniversary of the Closing Date, or January 16, 2016.

We are a leading developer, manufacturer and seller of miniature displays, optical lenses, ASICs (our “components”) and software for integration into wearable products and for sale as individual components. We use our proprietary

semiconductor material technology to design, manufacture and market our component products for use in highly demanding high-resolution portable military, enterprise and consumer electronic applications, training and simulation equipment and 3D metrology equipment. Our products enable our customers to develop and market an improved generation of products for these target applications.

We have two principal sources of revenues: component revenues and research and development revenues. Research and development revenues consist primarily of development contracts with agencies or prime contractors of the U.S. government

and commercial enterprises. Research and development revenues were $4.9 million, or 15.3% of total 2014 revenues, $2.3 million, or 10.0% of total 2013 revenues and $3.3 million, or 9.6% of total 2012 revenues.

We manufacture transmissive microdisplays and reflective microdisplays. Our commercial and military transmissive display production is being performed entirely in our Westborough, Massachusetts facility. Forth Dimension Displays (FDD), our wholly-owned subsidiary, manufactures our reflective microdisplays in its facility located in Scotland and it is a reportable segment.

Because our fiscal year ends on the last Saturday of December every seven years we have a fiscal year with 53 weeks. Our fiscal years 2014, 2013 and 2012 were all 52 week years.

Fiscal Year 2014 Compared to Fiscal Year 2013

Revenues. Our revenues, which include product sales and amounts earned from research and development contracts, for fiscal years 2014 and 2013, by category, were as follows:

Revenues by Category (in millions)	2014	2013
Military Applications	$14.3	$8.6
Consumer Applications	2.8	5.3
Industrial Applications	3.7	2.4
Wearable Applications	6.2	4.3
Research & Development	4.8	2.3
Total	$31.8	$22.9

Sales of our products for military applications increased in 2014 because of an increase in demand from the U.S. government. In the beginning of 2014 we expected military revenues to decline due to a decrease in demand from a military customer who had decided to source displays from a competitor. In the second quarter of 2014 we received additional orders from this military customer because of issues with the displays offered by our competitor. This resulted in additional military revenues for us in the third and fourth quarter of 2014, and we expect these revenues in the first quarter of 2015. We understand that our customer is re-qualifying our competitor’s product which may impact our 2015 military revenues. The U.S. government is projected to incur large budget deficits for the near future and is expected to reduce spending on military programs as part of the solution to decrease these deficits. We are currently designing several new weapon sight systems which encompass our display within the weapon sight and overlays certain information onto the sight’s view of the real-world. We expect to be in the design phase for most of fiscal year 2015. We expect limited orders for the new sight systems in 2015 but we cannot be assured that our new designs will be selected by the government for deployment or if we are selected it will be deployed.

The decrease in the Consumer Applications is the result of a decrease in sales of our products for use in digital still cameras (DSCs). We believe the overall market for DSCs has been declining due to an increase in use of cameras in smartphones. We expect revenues from this category to continue to further decline in 2015.The increase in Wearable Applications revenues in 2014 as compared to 2013 is a result of both an increase in sales to existing customers and obtaining new customers. Wearable Applications represents sales of our components for products for use in head mounted computing systems for other than military applications. The increase in Research and Development revenues is the result of funding by customers to develop wearable technologies partially offset by a decrease in funding from the U.S. government. We are unable to predict the amount of funding for research and development by the U.S. government as it addresses its fiscal deficit issues.

We offer headworn, voice and gesture controlled, hands-free cloud computing concept systems for consumer and enterprise applications that have an optical pod with our microdisplay and uses Windows CE or Android software. We refer to the various technologies we have developed as Kopin Wearable technologies. Our Kopin Wearable technologies encompass both component and software and technologies. The component technologies include our displays, optical lenses, application specific integrated circuits (ASICs), backlights and ergonomic designs. The software technology includes but is not limited to voice and gesture control, noise cancellation, Android and Windows CE based operating systems and web browsing. Our strategy is to license the headset concept systems and sell the various components included in the reference design as a group and also sell the components individually. Some of the technologies included in our concept systems are components and software which we license from other companies. We believe our ability to develop and expand the Kopin Wearable technologies and to market and license

our concept systems and components will be critical for us to achieve revenue growth, positive cash flow and profitability. The markets the Kopin Wearable technologies can be used in already have a number of existing product offerings such as ruggedized lap-top computers and tablets. The companies that offer these products are

significantly larger than we are. We expect to incur significant development and marketing costs in 2015 to commercialize the Kopin Wearable technologies.

International sales represented 38% and 48% of product revenues for fiscal years 2014 and 2013, respectively. Our international sales are primarily denominated in U.S. currency. Consequently, a strengthening of the U.S. dollar could increase the price in local currencies of our products in foreign markets and make our products relatively more expensive than competitors' products that are denominated in local currencies, leading to a reduction in sales or profitability in those foreign markets. In addition, our Korean subsidiary, Kowon, holds U.S. dollars in order to pay various expenses. As a result, our financial position and results of operations are subject to exchange rate fluctuation in transactional and functional currency. We have not taken any protective measures against exchange rate fluctuations, such as purchasing hedging instruments with respect to such fluctuations, because of the historically stable exchange rate between the Japanese yen, Korean won and the U.S. dollar.

Cost of Component Revenues.

	2014		2013	
Cost of component revenues (in millions)	$19.6		$20.7	
Cost of component revenues as a % of net component revenues	72.9	%	100.4	%

Cost of component revenues, which is comprised of materials, labor and manufacturing overhead related to the production of our products decreased as a percentage of revenues in 2014 as compared to 2013 due to an increase in the sale of our display products for military applications and the usage of certain raw materials used in military programs that were previously written-off as excess but were used in the 2014 production. In 2013, we compared forecasted demand for our military programs against inventory on-hand and provided reserves for estimated excess inventory. In the second quarter of 2014, we received additional orders for military products and we have been using the inventory reserved as excess in the fulfillment of the orders. In addition, military products historically have higher gross margins than commercial products.

Research and Development.

(in millions)	2014	2013
Funded	$5.2	$1.5
Internal	15.5	16.0
Total	$20.7	$17.5

Research and development (R&D) expenses are incurred in support of internal display development programs or programs funded by agencies or prime contractors of the U.S. government and commercial partners. In fiscal year 2015 our R&D expenditures will be related to our display products, over lay weapon sights and Kopin Wearable technologies. R&D revenues associated with funded programs are presented separately in revenue in the statement of operations. R&D costs include staffing, purchases of materials and laboratory supplies, circuit design costs, fabrication and packaging of display products, and overhead.

R&D expense increased in 2014 as compared to the prior year primarily because of investments made to develop our wearable technologies and develop manufacturing and quality control processes, including display development and software costs, partially offset by a decrease in government funded product development.

Selling, General and Administrative. Selling, general and administrative (S,G&A) expenses consist of the expenses incurred by our sales and marketing personnel and related expenses, and administrative and general corporate expenses.

	2014		2013	
Selling, general and administrative expense (in millions)	$19.9		$19.1	
Selling, general and administrative expense as a % of revenues	62.6	%	82.3	%

The increase in S,G&A expenses in 2014 as compared to 2013 is primarily attributable to increase in compensation expense partially offset by a decline in public relations expense.

Impairment. In 2013, we performed an impairment analysis of our finite-lived intangible assets related to FDD and Intoware. We performed our analysis of our finite-lived intangible assets based on the income approach. As a result we recorded a non-cash charge of $1.5 million to write down FDD's finite-lived intangible assets.

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(in millions)	Intangible Assets
As of December 31, 2011	$1.9
Amortization	(0.3)
Foreign currency translation	0.1
As of December 29, 2012	$1.7
Amortization	(0.4)
Impairment of goodwill	(1.2)
Foreign currency translation	0.1
As of December 28, 2013	$0.2
Amortization	(0.2)
As of December 27, 2014	$—

Other Income and Expense.

(in millions)	2014	2013
Interest income	$0.9	$1.1
Other income and expense, net	0.3	0.3
Foreign currency transaction losses	0.1	