

KOPIN CORP  
Form 10-Q  
August 06, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 27, 2015

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<br>incorporation or organization | (I.R.S. Employer<br>Identification No.) |

|  |            |
|--|------------|
| 125 North Drive, Westborough, MA                                   | 01581-3335 |
| (Address of principal executive offices)                           | (Zip Code) |
| Registrant's telephone number, including area code: (508) 870-5959 |            |

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ..

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

|                         |    |                           |    |
|-------------------------|----|---------------------------|----|
| Large accelerated filer | .. | Accelerated filer         | 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

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

|                               |                                      |
|-------------------------------|--------------------------------------|
| Class                         | Outstanding as of August 04,<br>2015 |
| Common Stock, par value \$.01 | 66,546,101                           |



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Part 1: FINANCIAL INFORMATION

Item 1: Condensed Consolidated Financial Statements (Unaudited)

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KOPIN CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|  | June 27,<br>2015 | December 27,<br>2014 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| Current assets:  |                  |                      |
| Cash and equivalents   | \$ 16,477,501    | \$ 14,635,801        |
| Marketable debt securities, at fair value  | 71,843,061       | 76,223,135           |
| Accounts receivable, net of allowance of \$191,000 and \$266,000 in 2015 and 2014, respectively  | 8,315,054        | 3,758,832            |
| Unbilled receivables   | 142,460          | 43,492               |
| Inventory  | 3,065,712        | 4,081,886            |
| Prepaid taxes  | 155,010          | 378,637              |
| Prepaid expenses and other current assets  | 698,319          | 802,837              |
| Notes receivable   | 14,966,671       | —                    |
| Total current assets   | 115,663,788      | 99,924,620           |
| Property, plant and equipment, net   | 4,107,309        | 4,589,421            |
| Goodwill   | 984,158          | 976,451              |
| Intangible assets, net   | 308,380          | 616,759              |
| Other assets   | 2,943,350        | 1,900,828            |
| Notes receivable   | —                | 14,933,335           |
| Total assets   | \$ 124,006,985   | \$ 122,941,414       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                  |                      |
| Current liabilities:   |                  |                      |
| Accounts payable   | \$ 4,778,554     | \$ 5,503,734         |
| Accrued payroll and expenses   | 1,828,292        | 1,985,691            |
| Accrued warranty   | 716,000          | 716,000              |
| Billings in excess of revenue earned   | 3,522,416        | 586,471              |
| Other accrued liabilities  | 3,111,810        | 3,169,028            |
| Deferred tax liabilities   | 1,282,000        | 1,282,000            |
| Total current liabilities  | 15,239,072       | 13,242,924           |
| Asset retirement obligations   | 314,812          | 311,187              |
| Commitments and contingencies  |                  |                      |
| Stockholders' equity:  |                  |                      |
| Preferred stock, par value \$.01 per share: authorized, 3,000 shares; none issued  | —                | —                    |
| Common stock, par value \$.01 per share: authorized, 120,000,000 shares; issued 78,473,358 shares in 2015 and 77,731,604 shares in 2014; outstanding 63,296,989 shares in 2015 and 63,077,715 shares in 2014 | 753,992          | 751,832              |
| Additional paid-in capital   | 326,425,178      | 324,625,694          |
| Treasury stock (12,102,258 shares in 2015 and 2014, respectively, at cost)   | (42,741,551 )    | (42,741,551 )        |
| Accumulated other comprehensive income   | 3,528,254        | 3,126,239            |
| Accumulated deficit  | (178,972,274 )   | (175,915,255 )       |
| Total Kopin Corporation stockholders' equity   | 108,993,599      | 109,846,959          |
| Noncontrolling interest  | (540,498 )       | (459,656 )           |
| Total stockholders' equity   | 108,453,101      | 109,387,303          |
| Total liabilities and stockholders' equity   | \$ 124,006,985   | \$ 122,941,414       |

See notes to unaudited condensed consolidated financial statements

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## KOPIN CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

|   | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 27,<br>2015   | June 28,<br>2014 | June 27,<br>2015 | June 28,<br>2014 |
| Revenues:   |                    |                  |                  |                  |
| Net component revenues  | \$9,486,723        | \$4,906,663      | \$16,615,093     | \$9,134,422      |
| Research and development revenues   | 1,369,883          | 2,036,624        | 2,826,505        | 2,503,634        |
|   | 10,856,606         | 6,943,287        | 19,441,598       | 11,638,056       |
| Expenses:   |                    |                  |                  |                  |
| Cost of component revenues  | 6,359,780          | 4,153,739        | 11,643,513       | 8,379,188        |
| Research and development  | 4,884,010          | 5,137,033        | 9,744,202        | 10,223,317       |
| Selling, general and administration   | 5,108,229          | 4,921,194        | 9,494,442        | 9,917,993        |
|   | 16,352,019         | 14,211,966       | 30,882,157       | 28,520,498       |
| Loss from operations  | (5,495,413 )       | (7,268,679 )     | (11,440,559 )    | (16,882,442 )    |
| Other income and expense:   |                    |                  |                  |                  |
| Interest income   | 198,898            | 193,305          | 408,561          | 431,477          |
| Other income, net   | 25,758             | 200,754          | 45,269           | 260,581          |
| Foreign currency transaction gains (losses)   | 529,138            | (674,456 )       | 349,549          | (492,706 )       |
| Gain on sale of investments   | 5,460,399          | —                | 7,602,820        | —                |
| Impairment of equity and cost investments   | —                  | (1,319,287 )     | —                | (1,319,287 )     |
|   | 6,214,193          | (1,599,684 )     | 8,406,199        | (1,119,935 )     |
| Income (loss) before (provision) benefit for income taxes, equity loss in unconsolidated affiliate and net loss attributable to noncontrolling interest | 718,780            | (8,868,363 )     | (3,034,360 )     | (18,002,377 )    |
| Tax (provision) benefit   | (12,500 )          | (37,000 )        | (25,000 )        | 106,000          |
| Income (loss) before equity loss in unconsolidated affiliate and net loss attributable to noncontrolling interest                                       | 706,280            | (8,905,363 )     | (3,059,360 )     | (17,896,377 )    |
| Equity loss in unconsolidated affiliate   | —                  | (122,553 )       | (47,443 )        | (224,858 )       |
| Net income (loss)   | 706,280            | (9,027,916 )     | (3,106,803 )     | (18,121,235 )    |
| Net loss attributable to the noncontrolling interest  | 74,690             | 221,973          | 49,784           | 180,876          |
| Net income (loss) attributable to the controlling interest  | \$780,970          | \$(8,805,943 )   | \$(3,057,019 )   | \$(17,940,359 )  |
| Net income (loss) per share   |                    |                  |                  |                  |
| Basic   | 0.01               | \$(0.14 )        | \$(0.05 )        | \$(0.29 )        |
| Diluted   | 0.01               | \$(0.14 )        | \$(0.05 )        | \$(0.29 )        |
| Weighted average number of common shares outstanding:   |                    |                  |                  |                  |
| Basic   | 63,066,031         | 62,643,506       | 63,074,842       | 62,586,854       |
| Diluted   | 63,300,781         | 62,643,506       | 63,074,842       | 62,586,854       |
| See notes to unaudited condensed consolidated financial statements  |                    |                  |                  |                  |

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## KOPIN CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

|   | Three Months Ended |                 | Six Months Ended |                  |
|---|--------------------|-----------------|------------------|------------------|
|   | June 27, 2015      | June 28, 2014   | June 27, 2015    | June 28, 2014    |
| Net income (loss)   | \$706,280          | \$ (9,027,916 ) | \$ (3,106,803 )  | \$ (18,121,235 ) |
| Other comprehensive (loss) income:                                      |                    |                 |                  |                  |
| Foreign currency translation adjustments                                | (569,644 )         | 947,386         | (555,222 )       | 87,787           |
| Unrealized holding gain (loss) on marketable securities                 | 500,602            | (33,852 )       | 1,325,524        | 149,589          |
| Reclassification of holding gains in net income (loss)                  | (21,785 )          | 10,131          | (399,345 )       | (3,952 )         |
| Other comprehensive (loss) income                                       | (90,827 )          | 923,665         | 370,957          | 233,424          |
| Comprehensive income (loss)   | \$615,453          | \$ (8,104,251 ) | \$ (2,735,846 )  | \$ (17,887,811 ) |
| Comprehensive (loss) income attributable to the noncontrolling interest | (76,524 )          | 143,489         | (18,726 )        | 152,474          |
| Comprehensive income (loss) attributable to controlling interest        | \$538,929          | \$ (7,960,762 ) | \$ (2,754,572 )  | \$ (17,735,337 ) |
| See notes to unaudited condensed consolidated financial statements      |                    |                 |                  |                  |



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## KOPIN CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

|  | Common Stock |            | Additional      | Treasury       | Accumulated                | Accumulated     | Total Kopin                      | Noncont     |
|--|--------------|------------|-----------------|----------------|----------------------------|-----------------|----------------------------------|-------------|
|  | Shares       | Amount     | Paid-in Capital | Stock          | Other Comprehensive Income | Deficit         | Corporation Stockholders' Equity | Interest    |
| Balance, December 27, 2014             | 75,183,207   | \$ 751,832 | \$ 324,625,694  | \$(42,741,551) | \$ 3,126,239               | \$(175,915,255) | \$ 109,846,959                   | \$(459,625) |
| Stock-based compensation               | —            | —          | 1,898,855       | —              | —                          | —               | 1,898,855                        | —           |
| Vesting of restricted stock            | 227,500      | 2,275      | (2,275)         | —              | —                          | —               | —                                | —           |
| Other comprehensive income             | —            | —          | —               | —              | 402,015                    | —               | 402,015                          | (31,058)    |
| Exercise of stock options and warrants | 39,798       | 398        | 85,650          | —              | —                          | —               | 86,048                           | —           |
| Restricted stock for tax withholdings  | (51,258)     | (513)      | (182,746)       | —              | —                          | —               | (183,259)                        | —           |
| Net loss                               | —            | —          | —               | —              | —                          | (3,057,019)     | (3,057,019)                      | (49,784)    |
| Balance, June 27, 2015                 | 75,399,247   | \$ 753,992 | \$ 326,425,178  | \$(42,741,551) | \$ 3,528,254               | \$(178,972,274) | \$ 108,993,599                   | \$(540,409) |

See notes to unaudited condensed consolidated financial statements

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## KOPIN CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|   | Six Months Ended |                  |
|---|------------------|------------------|
|   | June 27,<br>2015 | June 28,<br>2014 |
| Cash flows from operating activities:   |                  |                  |
| Net loss  | \$(3,106,803 )   | \$(18,121,235 )  |
| Adjustments to reconcile net loss to net cash used in operating activities:   |                  |                  |
| Depreciation and amortization   | 1,190,413        | 1,779,594        |
| Accretion (amortization) of premium or discount on marketable debt securities | 302,466          | 36,841           |
| Stock-based compensation  | 2,022,043        | 2,362,446        |
| Gain on sale of investments   | (7,602,820 )     | —                |
| Loss in unconsolidated affiliate  | —                | 102,305          |
| Impairment of equity and cost based investments                               | —                | 1,319,287        |
| Deferred income taxes   | —                | (95,262 )        |
| Foreign currency (gains) losses   | (280,173 )       | 507,792          |
| Gain on sale of equipment   | —                | (250,000 )       |
| Change in allowance for bad debt  | 74,500           | 14,679           |
| Other non-cash items  | 1,130,162        | 314,335          |
| Changes in assets and liabilities:  |                  |                  |
| Accounts receivable   | (4,388,730 )     | (1,018,638 )     |
| Inventory   | (110,325 )       | (518,105 )       |
| Prepaid expenses and other current assets                                     | 177,843          | (81,989 )        |
| Accounts payable and accrued expenses   | (1,351,835 )     | 865,328          |
| Billings in excess of revenue earned  | 3,085,945        | (258,189 )       |
| Net cash used in operating activities   | (8,857,314 )     | (13,040,811 )    |
| Cash flows from investing activities:   |                  |                  |
| Other assets  | (8,486 )         | (36,455 )        |
| Capital expenditures  | (651,814 )       | (978,037 )       |
| Proceeds from sale of marketable debt securities                              | 12,000,622       | 23,861,627       |
| Purchase of marketable debt securities  | (7,777,277 )     | (13,106,060 )    |
| Proceeds from sale of investments   | 7,330,203        | —                |
| Net cash provided by investing activities                                     | 10,893,248       | 9,741,075        |
| Cash flows from financing activities:   |                  |                  |
| Treasury stock purchases  | —                | (298,619 )       |
| Proceeds from exercise of stock options and warrants                          | 86,048           | 128,441          |
| Settlements of restricted stock for tax withholding obligations               | (183,259 )       | —                |
| Net cash used in financing activities   | (97,211 )        | (170,178 )       |
| Effect of exchange rate changes on cash                                       | (97,023 )        | 18,575           |
| Net increase (decrease) in cash and equivalents                               | 1,841,700        | (3,451,339 )     |
| Cash and equivalents:   |                  |                  |
| Beginning of period   | 14,635,801       | 16,756,666       |
| End of period   | \$16,477,501     | \$13,305,327     |
| Supplemental disclosure of cash flow information:                             |                  |                  |
| Income taxes paid   | \$50,000         | \$70,300         |
| Supplemental schedule of noncash investing activities:                        |                  |                  |
| Construction in progress included in accrued expenses                         | \$228,000        | \$156,000        |

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|   |             |           |
|---|-------------|-----------|
| Sale of equipment included in accounts receivable | \$—         | \$250,000 |
| Non cash proceeds from exercise of warrants       | \$1,330,000 | \$—       |

See notes to unaudited condensed consolidated financial statements

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KOPIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Kopin Corporation, its wholly-owned subsidiaries, Kowon Technology Co., Ltd. (Kowon), a majority owned (93%) subsidiary located in Korea, Intoware Ltd. (Intoware), a majority owned (58%) subsidiary located in the United Kingdom, and eMDT America Inc. (eMDT), a majority owned (80%) subsidiary located in California (collectively, the Company). Ownership interests of Kowon, Intoware and eMDT not attributable to the Company are referred to as noncontrolling interests. All intercompany transactions and balances have been eliminated. The condensed consolidated financial statements for the three and six months ended June 27, 2015 and June 28, 2014 are unaudited and include all adjustments which, in the opinion of management, are necessary to present fairly the results of operations for the periods then ended. These condensed consolidated financial statements should be read in conjunction with the Company's financial statements and notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 27, 2014.

The Company ceased its production activities at its Kowon facility in 2013, but as of June 27, 2015 the closure of this facility did not meet the criteria for assets held for sale.

During the second quarter of 2014, the Company paid approximately \$0.3 million to acquire an additional 29% ownership in its eMDT subsidiary.

The results of the Company's operations for any interim period are not necessarily indicative of the results of the Company's operations for any other interim period or for a full fiscal year.

During the six months ended June 27, 2015, the change in the Company's accumulated other comprehensive income was the net of \$0.6 million foreign currency translation adjustment, \$1.3 million unrealized holding gains on marketable securities and \$0.4 million of reclassified holding gains.

Table of Contents**2.CASH AND EQUIVALENTS AND MARKETABLE SECURITIES**

The Company considers all highly liquid, short-term debt instruments with original maturities of three months or less to be cash equivalents.

Marketable debt securities consist primarily of certificates of deposit, medium-term corporate debt, and United States government and agency backed securities. The Company classifies these marketable debt securities as available-for-sale in "Marketable Debt Securities". The Company records the amortization of premium and accretion of discount on marketable debt securities in the results of operations.

The Company uses the specific identification method as a basis for determining cost and calculating realized gains and losses with respect to marketable debt securities. The gross gains and losses realized related to sales and maturities of marketable debt securities were not material during the six months ended June 27, 2015 and the year ended December 27, 2014.

Investments in available-for-sale marketable debt securities are as follows at June 27, 2015 and December 27, 2014:

|  | Amortized Cost |              | Unrealized Gains |      | Unrealized Losses |             | Fair Value   |              |
|--|----------------|--------------|------------------|------|-------------------|-------------|--------------|--------------|
|  | 2015           | 2014         | 2015             | 2014 | 2015              | 2014        | 2015         | 2014         |
| U.S. government and agency backed securities | \$55,505,053   | \$57,897,914 | \$—              | \$—  | \$(39,473)        | \$(200,772) | \$55,465,580 | \$57,697,142 |
| Corporate debt and certificates of deposit   | 16,413,099     | 18,564,823   | —                | —    | (35,618)          | (38,830)    | 16,377,481   | 18,525,993   |
| Total  | \$71,918,152   | \$76,462,737 | \$—              | \$—  | \$(75,091)        | \$(239,602) | \$71,843,061 | \$76,223,135 |

The contractual maturity of the Company's marketable debt securities is as follows at June 27, 2015:

|  | Less than One year | One to Five years | Greater than Five years | Total        |
|--|--------------------|-------------------|-------------------------|--------------|
| U.S. government and agency backed securities | \$24,030,172       | \$23,865,571      | \$7,569,837             | \$55,465,580 |
| Corporate debt and certificates of deposit   | 14,413,761         | 1,963,720         | —                       | 16,377,481   |
| Total  | \$38,443,933       | \$25,829,291      | \$7,569,837             | \$71,843,061 |

The Company conducts a review of its marketable debt securities on a quarterly basis for the presence of other-than-temporary impairment (OTTI). The Company assesses whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the balance sheet date. Under these circumstances OTTI is considered to have occurred (1) if the Company intends to sell the security before recovery of its amortized cost basis; (2) if it is "more likely than not" the Company will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis.

The Company further estimates the amount of OTTI resulting from a decline in the credit worthiness of the issuer (credit-related OTTI) and the amount of non credit-related OTTI. Noncredit-related OTTI can be caused by such factors as market illiquidity. Credit-related OTTI is recognized in earnings while noncredit-related OTTI on securities not expected to be sold is recognized in other comprehensive income (loss). The Company did not record an OTTI for the three and six months ended June 27, 2015 and June 28, 2014.

Table of Contents**3. FAIR VALUE MEASUREMENTS**

Financial instruments are categorized as Level 1, Level 2 or Level 3 based upon the method by which their fair value is computed. An investment is categorized as Level 1 when its fair value is based on unadjusted quoted prices in active markets for identical assets that the Company has the ability to access at the measurement date. An investment is categorized as Level 2 if its fair market value is based on quoted market prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, based on observable inputs such as interest rates, yield curves, or derived from or corroborated by observable market data by correlation or other means. An investment is categorized as Level 3 if its fair value is based on assumptions developed by the Company about what a market participant would use in pricing the assets.

The following table details the fair value measurements of the Company's financial assets:

|                            | Total         | Fair Value Measurement June 27, 2015 Using: |               |         |
|----------------------------|---------------|---|---------------|---------|
|                            |               | Level 1                                     | Level 2       | Level 3 |
| Cash and Equivalents       | \$ 16,477,501 | \$ 16,477,501                               | \$—           | \$—     |
| U.S. Government Securities | 55,465,580    | 17,501,563                                  | 37,964,017    | —       |
| Corporate Debt             | 6,421,028     | —   | 6,421,028     | —       |
| Certificates of Deposit    | 9,956,453     | —   | 9,956,453     | —       |
| Vuzix Corporation          | 2,426,404     | 2,426,404                                   | —             | —       |
| GCS Holdings               | 289,006       | 289,006                                     | —             | —       |
|                            | \$ 91,035,972 | \$ 36,694,474                               | \$ 54,341,498 | \$—     |

|                            | Total         | Fair Value Measurement December 27, 2014 Using: |               |         |
|----------------------------|---------------|---|---------------|---------|
|                            |               | Level 1   | Level 2       | Level 3 |
| Cash and Equivalents       | \$ 14,635,802 | \$ 14,635,802                                   | \$—           | \$—     |
| U.S. Government Securities | 57,697,142    | 21,218,340                                      | 36,478,802    | —       |
| Corporate Debt             | 5,970,983     | —   | 5,970,983     | —       |
| Certificates of Deposit    | 12,555,010    | —   | 12,555,010    | —       |
| Vuzix Corporation          | 1,500,777     | 1,500,777                                       | —             | —       |
| GCS Holdings               | 180,347       | 180,347   | —             | —       |
|                            | \$ 92,540,061 | \$ 37,535,266                                   | \$ 55,004,795 | \$—     |

The corporate debt consists of floating rate notes with a maturity that is over multiple years but has interest rates which are reset every three months based on the then current three month London Interbank Offering Rate (three month Libor). The Company validates the fair market values of the financial instruments above by using discounted cash flow models, obtaining independent pricing of the securities or through the use of a model which incorporates the three month Libor, the credit default swap rate of the issuer and the bid and ask price spread of the same or similar investments which are traded on several markets.

The carrying amounts of cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of their short-term nature. If accrued liabilities were carried at fair value, these would be classified as Level 2 in the fair value hierarchy.

**4. INVENTORY**

Inventory is stated at the lower of cost (determined on the first-in, first-out) or market and consists of the following at June 27, 2015 and December 27, 2014:

|                 | June 27,<br>2015 | December 27,<br>2014 |
|-----------------|------------------|----------------------|
| Raw materials   | \$ 1,200,369     | \$ 2,057,202         |
| Work-in-process | 1,445,584        | 1,551,799            |
| Finished goods  | 419,759          | 472,885              |
|                 | \$ 3,065,712     | \$ 4,081,886         |



Table of Contents**5. NET INCOME (LOSS) PER SHARE**

Basic net income (loss) per share is computed using the weighted average number of shares of common stock outstanding during the period less any non-vested restricted shares. Diluted earnings per common share, if applicable, is calculated using weighted average shares outstanding and contingently issuable shares, less weighted average shares reacquired during the period. The net outstanding shares are adjusted for the dilutive effect of shares issuable upon the assumed conversion of the Company's common stock equivalents, which consist of outstanding stock options and non-vested restricted stock units.

Weighted average common shares outstanding used to calculate earnings per share are as follows:

|  | Three Months Ended |               | Six Months Ended |               |
|--|--------------------|---------------|------------------|---------------|
|  | June 27, 2015      | June 28, 2014 | June 27, 2015    | June 28, 2014 |
| Weighted average common shares outstanding-basic     | 63,066,031         | 62,643,506    | 63,074,842       | 62,586,854    |
| Stock options and non-vested restricted common stock | 234,750            | —             | —                | —             |
| Weighted average common shares outstanding-diluted   | 63,300,781         | 62,643,506    | 63,074,842       | 62,586,854    |

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

|                                    | Three Months Ended |               | Six Months Ended |               |
|------------------------------------|--------------------|---------------|------------------|---------------|
|                                    | June 27, 2015      | June 28, 2014 | June 27, 2015    | June 28, 2014 |
| Non-vested restricted common stock | 1,374,000          | 3,383,148     | 3,074,111        | 3,383,148     |
| Stock options                      | —                  | 399,600       | —                | 399,600       |
| Total                              | 1,374,000          | 3,782,748     | 3,074,111        | 3,782,748     |

For the three and six month periods ended June 28, 2014, the warrants to purchase 200,000 shares of the Company's common stock for \$3.49 per share were not included in weighted average common shares outstanding-diluted. These warrants were exercised during the six month period ended June 27, 2015.

**6. STOCK-BASED COMPENSATION**

The fair value of non-vested restricted common stock awards is generally the market value of the Company's common stock on the date of grant. The non-vested restricted common stock awards require the employee to fulfill certain obligations, including remaining employed by the Company for one, two or four years (the vesting period) and in certain cases also require meeting either performance criteria or the Company's stock achieving a certain price. For non-vested restricted common stock awards which solely require the recipient to remain employed with the Company, the stock compensation expense is amortized over the anticipated service period. For non-vested restricted common stock awards which require the achievement of performance criteria, the Company reviews the probability of achieving the performance goals on a periodic basis. If the Company determines that it is probable that the performance criteria will be achieved, the amount of compensation cost derived for the performance goal is amortized over the anticipated service period. If the performance criteria are not met, no compensation cost is recognized and any previously recognized compensation cost is reversed. The Company recognizes compensation costs on a straight-line basis over the requisite service period for time-vested awards.

On February 13, 2015, the Company modified the termination date of certain restricted stock grants previously made to Dr. Fan, the Company's President and Chief Executive Officer. In 2011, the Company granted Dr. Fan 260,000 shares of restricted stock which will vest upon the first 10 consecutive trading day period following the grant date during which the Company's common stock trades at a price equal to or greater than \$5.25, subject to acceleration upon the occurrence of an acceleration event. This grant was originally set to terminate on September 12, 2016. In 2013, the Company granted compensation awards to Dr. Fan that consisted of two grants of 150,000 shares of restricted stock each. One of the grants will vest at the end of the first 10 consecutive trading day period following the grant date during which the Company's common stock trades at a price per share equal to or greater than \$6.00. The other award will vest at the end of the first 10 consecutive trading day period following the grant date during which the Company's common stock trades at a price per share equal to or greater than \$7.00. Both are due to expire in 2023.



On December 31, 2014, Dr. Fan entered into a 3-year employment agreement with the Company which expires on December 31, 2017. The Company has amended each of the foregoing grants to now terminate on December 31, 2017, to be consistent with Dr. Fan's employment agreement.

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A summary of stock option award activity under the equity plans as of June 27, 2015 and changes during the six month period then ended is as follows:

|   | Six Months Ended June 27, 2015 |                                 |
|---|--------------------------------|---------------------------------|
|   | Shares                         | Weighted Average Exercise Price |
| Balance, December 27, 2014              | 130,500                        | \$3.49                          |
| Options forfeited/canceled              | (125,358)                      | ) 3.50                          |
| Options exercised                       | (5,142)                        | ) 3.16                          |
| Balance, all exercisable, June 27, 2015 | —                              | \$—                             |
| Non-Vested Restricted Common Stock      |                                |                                 |

A summary of the activity for non-vested restricted common stock awards as of June 27, 2015 and changes during the six month period then ended is presented below:

|                            | Shares    | Weighted Average Grant Fair Value |
|----------------------------|-----------|-----------------------------------|
| Balance, December 27, 2014 | 2,551,631 | \$3.75                            |
| Granted                    | 1,005,000 | 3.89                              |
| Forfeited                  | (255,020) | ) 3.68                            |
| Vested                     | (227,500) | ) 4.00                            |
| Balance, June 27, 2015     | 3,074,111 | \$3.78                            |

During the three month period ended June 27, 2015, the performance conditions for 50,000 awards granted in 2014 were determined and achieved. Stock-based compensation expense of approximately \$222,000 has been recorded relating to this award during the three month period ended June 27, 2015.

Subsequent to the year ended December 27, 2014, the Company identified an error in its calculation of the weighted average grant fair value of issued restricted stock outstanding as of December 27, 2014. The Company had disclosed a weighted average grant fair value of \$4.41 in its Form 10-K for the year ended December 27, 2014, however the correct weighted average grant fair value was \$3.75. The Company has revised the amount within the period ended June 27, 2015.

#### Stock-Based Compensation

The following table summarizes stock-based compensation expense within each of the categories below as it relates to non-vested restricted common stock awards for the six months ended June 27, 2015 and June 28, 2014 (no tax benefits were recognized):

|                                     | Six Months Ended |               |
|-------------------------------------|------------------|---------------|
|                                     | June 27, 2015    | June 28, 2014 |
| Cost of component revenues          | \$461,094        | \$472,213     |
| Research and development            | 503,523          | 637,528       |
| Selling, general and administrative | 1,057,426        | 1,252,705     |
| Total                               | \$2,022,043      | \$2,362,446   |

Unrecognized compensation expense for non-vested restricted common stock as of June 27, 2015 totaled \$5.4 million and is expected to be recognized over a weighted average period of three years.

#### 7. OTHER ASSETS AND NOTE RECEIVABLE



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During the second quarter of 2014, the Company wrote-off its \$1.3 million investment in Kobrite. Prior to the write-off, the Company accounted for its 12% ownership interest using the equity method. One of the Company's directors is a member of the Board of Directors of Bright LED, principal investor of KoBrite.

The Company has recorded a \$14.9 million note receivable resulting from the sale of its III-V product line and its investment in KTC, which is due January 16, 2016. The receivable is collateralized by certain assets of the buyer of the III-V product line. 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.

As of June 27, 2015, the Company had an investment in GCS Holdings with a fair market value of \$0.3 million and an adjusted cost basis of \$0.0 million. As of December 27, 2014, GCS Holdings had a fair market value of \$0.2 million, with an adjusted cost basis of \$0.0 million.

As of December 27, 2014, the Company had an investment in Vuzix Corporation ("Vuzix") with a fair market value of \$1.5 million and adjusted cost basis of \$0.0 million. On February 25, 2015, the Company acquired approximately 251,000 shares of Vuzix common stock through a cashless exercise of warrants. The Company received the warrants in August 2013 as part of a restructuring of debt owed by Vuzix to the Company. Upon receipt of the warrants, the Company should have recorded the value of the warrant of approximately \$352,000 in its consolidated financial statements. Subsequently, the Company should have marked to market the warrants at the end of each reporting period. Had the Company recorded the warrants in its consolidated financial statements and marked to market the warrants as of December 28, 2013 and December 27, 2014, the Company would have recorded gains in its statement of operations of approximately \$646,000 and \$171,000, respectively. In the first quarter of 2015, the Company recorded the warrants in its consolidated financial statements and as a result recorded a gain of approximately \$1.3 million with \$817,000 attributed to prior periods. The value of the warrants as of August 2013, December 28, 2013 and December 27, 2014 was determined using the Black-Scholes pricing model. The Company does not believe the unrecorded gains were material to the consolidated financial statements as the loss from operations for the fiscal years ended December 28, 2013 and December 27, 2014 were \$35.9 million and \$28.5 million, respectively. As of June 27, 2015, the Company's investment in Vuzix had a fair market value of \$2.4 million with adjusted cost basis of \$0.3 million.

**8. ACCRUED WARRANTY**

The Company typically warrants its products against defect for 12 months. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded in the period when product is shipped and revenue recognized, and is updated as additional information becomes available. The Company's estimate of future costs to satisfy warranty obligations is based primarily on historical warranty expense experienced and a provision for potential future product failures. Changes in the accrued warranty for the six months ended June 27, 2015 are as follows:

|                            |            |
|----------------------------|------------|
| Balance, December 27, 2014 | \$716,000  |
| Additions                  | 362,000    |
| Claim and reversals        | (362,000 ) |
| Balance, June 27, 2015     | \$716,000  |

**9. INCOME TAXES**

The Company's tax provision of approximately \$12,500 and \$25,000 for the three and six month period ended June 27, 2015 represents the net movement in estimated foreign withholding on anticipated future remitted earnings of an international subsidiary and state taxes. The Company's tax provision of \$37,000 and tax benefit of approximately \$106,000 for the three and six month period ended June 28, 2014 represents a reduction in estimated foreign withholding taxes due on an international subsidiary.

As of June 27, 2015, the Company has available for tax purposes U.S. federal NOLs of approximately \$70 million expiring through 2034. The Company has recognized a full valuation allowance on its domestic and certain foreign net deferred tax assets due to the uncertainty of realization of such assets. The Company has not historically recorded, nor does it intend to record the tax benefits from stock awards until realized. Unrecorded benefits from stock awards

approximate \$10 million.

The Company's income tax returns have not been examined by the Internal Revenue Service and are subject to examination for all years since 2001. State income tax returns are generally subject to examination for a period of 3 to 5 years after filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states.

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## 10. SEGMENTS AND GEOGRAPHICAL INFORMATION

The Company's chief operating decision maker is its Chief Executive Officer. The Company has determined it has two reportable segments, FDD, the manufacturer of its reflective display products for test and simulation products, and Kopin, which is comprised of Kopin Corporation, Kowon, Intoware and eMDT. The following table presents the Company's reportable segment results (in thousands):

|  | Three Months Ended |         |          | June 28, 2014 |         |           |
|--|--------------------|---------|----------|---------------|---------|-----------|
|  | June 27, 2015      |         |          |               |         |           |
|  | Kopin              | FDD     | Total    | Kopin         | FDD     | Total     |
| Revenues   | \$10,177           | \$679   | \$10,856 | \$6,007       | \$936   | \$6,943   |
| Net income (loss) attributable to the controlling interest | 853                | (72 )   | 781      | (8,479 )      | (327 )  | (8,806 )  |
|  | Six Months Ended   |         |          | June 28, 2014 |         |           |
|  | June 27, 2015      |         |          |               |         |           |
|  | Kopin              | FDD     | Total    | Kopin         | FDD     | Total     |
| Revenues   | \$17,764           | \$1,678 | \$19,442 | \$9,909       | \$1,729 | \$11,638  |
| Net loss attributable to the controlling interest          | (2,519 )           | (538 )  | (3,057 ) | (17,103 )     | (838 )  | (17,940 ) |
| Total assets   | 122,604            | 1,403   | 124,007  | 129,160       | 1,932   | 131,091   |
| Long-lived assets  | 3,972              | 135     | 4,107    | 4,930         | 381     | 5,312     |

The total assets of Kopin is net of \$5.3 million and \$5.0 million in intercompany loans to FDD as of June 27, 2015 and December 27, 2014, respectively.

During the three and six month periods ended June 27, 2015 and June 28, 2014, the Company derived its sales from the following geographies (as a percentage of net revenues):

|                | Three Months Ended |               | Six Months Ended |               |   |
|----------------|--------------------|---------------|------------------|---------------|---|
|                | June 27, 2015      | June 28, 2014 | June 27, 2015    | June 28, 2014 |   |
| United States  | 77                 | % 52          | % 75             | % 47          | % |
| Others         | —                  | % 1           | % 1              | % —           | % |
| Americas       | 77                 | % 53          | % 76             | % 47          | % |
| Asia-Pacific   | 18                 | % 34          | % 17             | % 39          | % |
| Europe         | 5                  | % 13          | % 7              | % 14          | % |
| Total Revenues | 100                | % 100         | % 100            | % 100         | % |

## 11. LITIGATION

The Company 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.

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Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This Quarterly Report on Form 10-Q 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 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 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 we will purchase the shares of Kowon not currently owned by us; our expectation that the U.S. government will significantly reduce funding for programs through which we sell high margin military products; our expectation that orders for our products for use in thermal weapon sights will decline for the remainder of 2015; our expectation that customers that purchase our products for Wearable applications will launch products in 2015; our expectation that orders for our products for use in DSC applications will decline for the remainder of 2015; our expectation that sales of our products for use in 3D metrology applications will increase in 2015 as compared to 2014; 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 to 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



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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.

### Critical Accounting Policies

Management's discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed 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 disclosures of contingent assets and liabilities. We continually evaluate our estimates used in the preparation of our financial statements, including those related to revenue recognition under the percentage of completion method, bad debts, inventories, warranty reserves, investment valuations, valuation of stock compensation awards and recoverability of deferred tax assets. 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 will most likely differ from these estimates. Further detail regarding our critical accounting policies can be found in "Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 27, 2014.

### Business Matters

We were incorporated in Delaware in 1984 and offer Kopin Wearable technology, a collection of component technologies and software which can be integrated to create headset reference designs which use voice as the user interface and through the use of wireless technologies can contact other users or information from the cloud. Our customers can license the reference design or purchase our components individually.

Our Kowon facility is for sale and when it is sold we anticipate that a final determination of the value of the shares held by the minority shareholders will be made and we will purchase these shares. The sale of the facility does not meet the criteria for assets held for sale based on the anticipated time to sell the facility.

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.

The components we offer include micro displays, backlights, optic, and noise cancellation technologies. Our principal display products are miniature high density color or monochrome active matrix LCDs 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 an Electronic Viewfinder (EVF) which includes a single display, backlight and optics in a plastic housing or in a Higher-Level Assembly (HLA) which contain a display, light emitting diode based illumination, optics, and electronics in a sealed housing. EVFs are sold to commercial and industrial customers and HLA's are specifically configured and sold to military customers.

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;

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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 Westborough, Massachusetts facility 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 reflective LCOS displays products are miniature high density dual mode color sequential/monochrome reflective micro displays 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.

We have three sources of revenues: component revenues, which are our primary source of revenues, research and development (R&D) revenues primarily from development contracts with agencies or prime contractors of the U.S, government and commercial enterprises and license revenues from our reference designs. To date our license revenues have been de minimis. For the three and six months ended June 27, 2015, R&D revenues were \$1.4 million and \$2.8 million, or 12.6% and 14.5% of total revenues, respectively. This contrasted with \$2.0 million and \$2.5 million, or 29% and 22% of total revenue for the corresponding periods in 2014.

#### Results of Operations

The three and six month periods ended June 27, 2015 and June 28, 2014 are referred to as 2015 and 2014, respectively. The year ended period December 27, 2014 is referred to as fiscal year 2014.

Revenues. For the three and six month periods ended June 27, 2015 and June 28, 2014, our revenues, which include component sales and amounts earned from research and development contracts, were as follows (in millions):

| Display Revenues by Application | Three Months Ended |               | Six Months Ended |               |
|---------------------------------|--------------------|---------------|------------------|---------------|
|                                 | June 27, 2015      | June 28, 2014 | June 27, 2015    | June 28, 2014 |
| Military                        | \$2.4              | \$1.5         | \$7.0            | \$2.6         |
| Wearable                        | 6.0                | 1.5           | 7.1              | 3.1           |
| Industrial                      | 0.7                | 1.0           | 1.7              | 1.7           |
| Consumer                        | 0.4                | 0.9           | 0.8              | 1.7           |
| Research & Development          | 1.4                | 2.0           | 2.8              | 2.5           |
| Total                           | \$10.9             | \$6.9         | \$19.4           | \$11.6        |

Sales of our products for Military Applications increased in 2015 as compared to 2014 because of an increase in demand from the U.S. government for our products used in thermal weapon sights. We expect orders for these products to decline for the remainder of 2015. Wearable Applications represents sales of our components for products that are worn on the body for other than Military Applications. The increase in Wearable Applications revenues in 2015 as compared to 2014 is primarily the result of an increase in sales to new customers. The increase in revenues from sales of our products for Wearable Applications in the second quarter of 2015 in particular was due to shipments to a customer expected to launch their product in 2015, however we do not have a definitive launch date. Sales of our products to customers that use our products for Wearable Applications is a critical part of our strategy to increase revenues and return to profitability and positive cash flow. How successful we are in selling our products for Wearable Applications will depend on the demand for our customers' new products, which we are unable to predict. Industrial Applications represents customers who purchase display products for use in equipment such as 3D metrology. We expect an increase in the sales of our products for use in 3D metrology applications in 2015 as compared to 2014. For the second quarter of 2015, a substantial portion of our Research & Development revenue was earned from customers funding development efforts associated with Wearable Applications. Consumer Applications primarily represents customers who purchase our products for digital still camera (DSC) applications. We expect orders for our products for use in DSC applications to decline for the remainder of 2015.

We have developed headworn, voice and gesture controlled, hands-free cloud computing reference designs that have an optical pod which includes our microdisplay, a backlight and an optical lens. We refer to the headset reference designs and other technologies we have developed as Kopin Wearable technologies. We offer to license the headset reference designs and sell our components. To date licensing revenues have been de minimis and sales of our components are shown in the table

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above under Wearable Applications. We believe our ability to develop and expand the Kopin Wearable technologies and to market and license the Kopin Wearable technologies will be important for us to achieve revenue growth, positive cash flow and to achieve profitability. This is the first product we have developed that has a significant software component. We expect to incur significant development and marketing costs in fiscal year 2015 to commercialize the Kopin Wearable technologies.

International sales represented 25% and 53% of product revenues for the six months ended June 27, 2015 and June 28, 2014, 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. 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.**

|   | Three Months Ended |               | Six Months Ended |               |   |
|---|--------------------|---------------|------------------|---------------|---|
|   | June 27, 2015      | June 28, 2014 | June 27, 2015    | June 28, 2014 |   |
| Cost of component revenues (in millions):                   | \$6.4              | \$4.2         | \$11.6           | \$8.4         |   |
| Cost of component revenues as a % of net component revenues | 67.0               | % 84.7        | % 70.1           | % 91.7        | % |

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 2015 as compared to 2014 due an increase in sales of military products which have higher gross margins as compared to our other products. As discussed above, we expect the sales of our military products for use in thermal weapon sights to decline in the second half of 2015 as compared to the first half of 2015.

Research and Development. Research and development (R&D) expenses are incurred in support of internal 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 and wearable technologies. R&D revenues associated with funded programs are presented separately in revenue in the statement of operations. Research and development costs include staffing, purchases of materials and laboratory supplies, circuit design costs, fabrication and packaging of display products, and overhead. For the three and six months ended June 27, 2015 and June 28, 2014, R&D expense was as follows (in millions):

|  | Three Months Ended |               | Six Months Ended |               |
|--|--------------------|---------------|------------------|---------------|
|  | June 27, 2015      | June 28, 2014 | June 27, 2015    | June 28, 2014 |
| Funded                                 | \$0.6              | \$1.5         | \$2.0            | \$2.3         |
| Internal                               | 4.3                | 3.6           | 7.7              | 7.9           |
| Total research and development expense | \$4.9              | \$5.1         | \$9.7            | \$10.2        |

R&D expense for the three and six months ended June 27, 2015 was essentially flat as compared to the prior year. For the three months ending June 27, 2015, Internal R&D cost increased and Funded R&D cost decreased as compared to the same period in 2014, as more resources were allocated to support internal programs as custom funded programs declined.

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.

|                    |                  |
|--------------------|------------------|
| Three Months Ended | Six Months Ended |
|--------------------|------------------|

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|  | June 27, 2015 | June 28, 2014 | June 27, 2015 | June 28, 2014 |
|--|---------------|---------------|---------------|---------------|
| Selling, general and administration expense (in millions):     | \$5.1         | \$4.9         | \$9.5         | \$9.9         |
| Selling, general and administration expense as a % of revenues | 46.3          | % 70.5        | % 48.4        | % 85.0        |

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S,G&A increased for the three months ended June 27, 2015 as compared to the same period in 2014 reflecting an increase in compensation for new hires, patent, information technology and travel expenses which were partially offset by lower stock-based compensation expenses. S,G&A expenses decreased for the first six months of 2015 as compared to the same period in 2014 primarily as a result of lower professional fees and stock-based compensation expenses which were partially offset by higher information technology expenses. Patent expense for the three and six months ended June 27, 2015 were \$530,000 and \$950,000, respectively, as compared to \$389,000 and \$949,000 for the three and six months ended June 28, 2014, respectively.

## Other Income and Expense

|   | Three Months Ended |               | Six Months Ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | June 27, 2015      | June 28, 2014 | June 27, 2015    | June 28, 2014 |
| Other income and expense (in millions): | \$6.2              | \$(1.6        | ) \$8.4          | \$(1.1        |

Other income and expense, net, is primarily composed of interest income, foreign currency transaction and remeasurement gains and losses incurred by our Korean and UK-based subsidiaries and gains and losses resulting from the impairment or sale of investments. During the three and six months ended June 27, 2015 we sold investments and recorded \$5.4 million and \$7.6 million of gains, respectively. The \$5.4 million gain on sale of investment for the three month period ended June 27, 2015 resulted from our divestiture of our equity interest in Recon Instruments (Recon) as part of Intel Corporation's acquisition of Recon.

During the three months ended June 27, 2015 and June 28, 2014, we recorded \$0.5 million of foreign currency gains and \$0.7 million of foreign currency losses, respectively. During the six months ended June 27, 2015, we recorded a non-cash gain of \$1.3 million as a result of recording warrants determined to be derivative assets. We received the warrants in August 2013 as part of a restructuring of debt owed by Vuzix Corporation to us. Upon receipt of the warrants, we should have recorded the value of the warrants of approximately \$352,000 in our consolidated financial statements. Subsequently, we should have marked to market the warrants at the end of each reporting period. Had we recorded the warrants in our consolidated financial statements and marked to market the warrants as of December 28, 2013 and December 27, 2014, we would have recorded gains in our Statement of Operations of approximately \$646,000 and \$171,000, respectively. In the first quarter of 2015, we recorded the warrants in our consolidated financial statements and as a result recorded a gain of approximately \$1.3 million with \$817,000 attributed to prior periods.

Equity Losses in Unconsolidated Affiliates. For the three and six months ended June 28, 2014, the equity loss in unconsolidated affiliate consists of our approximate 12% share of the losses of KoBrite, incurred prior to our writing the investment off in the second quarter of 2014.

Tax Provision. For the three and six months ended June 27, 2015, we recorded a tax provision of \$12,500 and \$25,000, respectively, for estimated state taxes as compared to a tax provision of \$37,000 and a tax benefit of \$106,000, respectively, for the three and six months ended June 28, 2014. The tax benefit recorded for the six month period ended June 28, 2014 was a result of the net movement in estimated foreign withholding on anticipated future remitted earnings of an international subsidiary.

Net Income Attributable to Noncontrolling Interest. We own approximately 93% of the equity of Kowon, approximately 58% of the equity of Intoware, and 80% of the equity of eMDT. Net loss attributable to noncontrolling interest on our consolidated statement of operations represents the portion of the results of operations of our majority owned subsidiaries which is allocated to the shareholders of the equity interests not owned by us. The change in net income attributable to noncontrolling interest is the result of the change in the results of operations of Kowon, Intoware and eMDT for the three and six month period ended June 27, 2015.

## Liquidity and Capital Resources

As of June 27, 2015, we had cash and equivalents and marketable securities of \$88.3 million and working capital of \$100.4 million compared to \$90.9 million and \$86.7 million, respectively, as of December 27, 2014. The change in cash and equivalents and marketable securities was primarily due to net outflow of cash used in operating activities of \$8.9 million, offset by cash provided by investing activities of \$10.9 million.

Cash and marketable debt securities held in U.S. dollars:





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|  |              |
|--|--------------|
| Domestic   | \$76,042,741 |
| Foreign  | 10,370,817   |
| Subtotal cash and marketable debt securities   | 86,413,558   |
| Cash and marketable debt securities held in other currencies and converted to U.S. dollars | 1,907,004    |
| Total cash and marketable debt securities  | \$88,320,562 |

We have no plans to repatriate the cash and marketable debt securities held in our foreign subsidiaries FDD and Intoware and, as such, we have not recorded any deferred tax liability with respect to such cash. The operations at our Korean facility, Kowon, have ceased. Kowon has approximately \$12.0 million of cash and marketable debt securities which we anticipate will eventually be remitted to the U.S. and, accordingly, we have recorded deferred tax liabilities associated with its unremitted earnings.

We lease facilities located in Westborough, Massachusetts, Santa Clara, California and Scotts Valley, California under non-cancelable operating leases. The Westborough, Santa Clara and the Scotts Valley leases expire in 2023, 2016 and 2015, respectively.

We lease a facility in Dalgety Bay, Scotland which expires in 2016, and also lease two facilities in Nottingham, United Kingdom, which expire in 2016 and 2017, respectively.

We expect to expend between \$2 million and \$3 million on capital expenditures over the next twelve months.

As of June 27, 2015, we had U.S. federal and state tax loss carry-forwards, which may be used to offset U.S. future federal and state taxable income. We also had tax loss carry-forwards generated in our foreign subsidiaries which may be used to offset future foreign taxable income. We may be subject to alternative minimum taxes, foreign taxes and state income taxes depending on our taxable income and sources of taxable income.

Historically, we have financed our operations primarily through public and private placements of our equity securities and cash generated from operations. We believe our available cash resources will support our operations and capital needs for at least the next twelve months.

**Seasonality**

There has been no seasonal pattern to our sales in fiscal years 2015 and 2014.

**Contractual Obligations**

The following is a summary of our contractual payment obligations for operating leases as of June 27, 2015:

| Contractual Obligations     | Total       | Less than 1 year | 1-3 Years    | 3-5 years   | More than 5 years |
|-----------------------------|-------------|------------------|--------------|-------------|-------------------|
| Operating Lease Obligations | \$5,864,016 | \$ 1,194,196     | -\$2,221,320 | \$1,915,167 | 693 \$ 533,333    |

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We invest our excess cash in high-quality U.S. government, government-backed (Fannie Mae, FDIC guaranteed bonds and certificates of deposit) and corporate debt instruments, which bear lower levels of relative risk. We believe 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 to our cash flows or income. It is possible that interest rate movements would increase our unrealized gain or loss on interest rate securities. We are exposed to changes in foreign currency exchange rates primarily through our translation of our foreign subsidiaries' financial position, results of operations, and transaction gains and losses as a result of non U.S. dollar denominated cash flows related to business activities in Asia and Europe, and remeasurement of U.S. dollars to the functional currency of our U.K. and Kowon subsidiaries. We are also exposed to the effects of exchange rates in the purchase of certain raw materials which are in U.S. dollars but the price on future purchases is subject to change based on the relationship of the Japanese Yen to the U.S. dollar. We do not currently hedge our foreign currency exchange rate risk. We estimate that any market risk associated with our international operations is unlikely to have a material adverse effect on our business, financial condition or results of operation. Our portfolio of marketable debt securities is subject to interest rate risk although our intent is to hold securities until maturity. The credit rating of our investments may be affected by the underlying financial health of the guarantors of our investments. We use silicon wafers but do not enter into forward or futures hedging contracts.



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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) were not effective. This conclusion was based on the existence of the material weakness in our internal control over financial reporting previously disclosed and discussed below and as more fully discussed in our Annual Report on Form 10-K for the year ended December 27, 2014.

As disclosed in our Annual Report on Form 10-K, Item 9A, for the year ended December 27, 2014, our management concluded that our internal control over financial reporting was not effective at December 27, 2014. We are actively engaged in the implementation of a remediation plan to ensure that controls contributing to this material weakness are designed appropriately and will operate effectively. We expect that our remediation efforts will continue, although the material weakness will not be considered remediated until our controls are operational for a period of time, tested and management concludes that these controls are operating effectively.

Notwithstanding the identified material weakness and management's assessment that internal control over financial reporting was ineffective as of June 27, 2015, management believes that the consolidated financial statements contained in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that was conducted during the quarter ended June 27, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except for our remediation efforts described above.

Part II. OTHER INFORMATION

Item 1. 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 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended December 27, 2014. The risks discussed in our Annual Report on Form 10-K could materially affect our business, financial condition and future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Sale of Unregistered Securities

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

Use of Proceeds

The information required by this item regarding use of proceeds by the Company is reported herein in Part 1, Item 2 under "Liquidity and Capital Resources".

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## Item 6. Exhibits

| Exhibit No. | Description   |
|-------------|---|
| 3.1         | Amended and Restated Certificate of Incorporation (1)   |
| 3.2         | Amendment to Certificate of Incorporation (2)   |
| 3.3         | Amendment to Certificate of Incorporation (2)   |
| 3.4         | Fourth Amended and Restated By-laws (3)   |
| 31.1        | Certification of John C.C. Fan, Chief Executive Officer, filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) *           |
| 31.2        | Certification of Richard A. Sneider, Chief Financial Officer, filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) *      |
| 32.1        | Certification of John C.C. Fan, Chief Executive Officer, furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) **      |
| 32.2        | Certification of Richard A. Sneider, Chief Financial Officer, furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) ** |
| 101.INS     | XBRL Instance Document*   |
| 101.SCH     | XBRL Taxonomy Extension Schema Document*  |
| 101.CAL     | XBRL Taxonomy Calculation Linkbase Document*  |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document*   |
| 101.LAB     | XBRL Taxonomy Label Linkbase Document*  |
| 101.PRE     | XBRL Taxonomy Presentation Linkbase Document*   |

\*Submitted electronically herewith

\*\*Furnished and not filed herewith

(1) Filed as an exhibit to Registration Statement on Form S-1, File No. 33-57450, and incorporated herein by reference.

(2) Filed as an exhibit to Quarterly Report on Form 10-Q for the quarterly period July 1, 2000 and incorporated herein by reference.

(3) Filed as an exhibit to Current Report on Form 8-K filed on December 12, 2008 and incorporated herein by reference.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at June 27, 2015 (Unaudited) and December 27, 2014, (ii) Consolidated Statements of Operations (Unaudited) for the three and six months ended June 27, 2015 and June 28, 2014, (iii) Consolidated Statement of Comprehensive Income (Loss) (Unaudited) for the three and six months ended June 27, 2015 and June 28, 2014, (iv) Consolidated Statements of Stockholders' Equity (Unaudited) for the six months ended June 27, 2015, (v) Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 27, 2015 and June 28, 2014, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KOPIN CORPORATION  
(Registrant)

Date: August 6, 2015

By: /S/ John C.C. Fan  
John C.C. Fan  
President, Chief Executive Officer and  
Chairman of the Board of Directors  
(Principal Executive Officer)

Date: August 6, 2015

By: /S/ RICHARD A. SNEIDER  
Richard A. Sneider  
Treasurer and Chief Financial Officer  
(Principal Financial and Accounting Officer)