KOPIN CORP
Form 10-K
March 18, 2013

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 29, 2012

OR

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

For the transition period from to

Commission file number 0-19882

KOPIN CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	04-2833935
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 John Hancock Rd., Taunton, MA	02780-1042
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(508) 824-6696
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 30, 2012 (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 $218,148,796.
As of March 15, 2013, 66,578,555 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 2012 Annual Meeting of Shareholders 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 technology will provide for increased worker productivity, safety and improved manufacturing quality; our belief that our ability to develop and expand the Golden-i technologies and to market and license the Golden-i technology will be important for our revenue growth and ability to achieve profitability; our expectation that we will incur significant development and marketing costs in 2013 to commercialize the Golden-i technologies; our statement that we may make equity investments in companies; our expectation that KoBrite will incur additional losses in the near term; our expectation that the operations at our Korean facility, Kowon, will cease and approximately $14.2 million of cash and marketable debt held by Kowon will eventually be remitted back to the U.S.; our expectation that revenue will be between $18 million and $22 million for 2013; our expectation that we will have a consolidated net loss in the range of $15 million to $19 million in 2013; our expectation that the U.S. government will significantly reduce funding for programs through which we sell high margin military products;

our expectation that revenues from sales of defense related products to the U.S. government to decline approximately $8 million to $10 million in our 2013 fiscal year; our expectation that we will not achieve the milestones in the state grant from Massachusetts and our expectation that we will be required to repay the balance of such grant;

our belief that a strengthening of the U.S. dollar could increase the price of our products in foreign markets; our expectation that we will not receive additional amounts from the sale of patents; 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 micro-display industry; our belief that our ability to develop innovative products based on our extensive materials science expertise 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, based on current negotiations with our customers and certain contractual obligations, that the sales prices of certain products will decline in fiscal year 2013; our expectation that sales of our displays into the TWS program will decline significantly in 2013; our plan to base production and inventory levels based on internal forecasts of customer demands; our belief that the overall increase or decrease in the average sales price of our display products will be dependent on the sales mix of commercial and military display sales; our belief that the U.S. military will evaluate competitors' products for the next thermal weapon sight program; our expectation that we will expend between $2.0 and $3.0 million on capital expenditures over the next twelve months; our expectation that competition will increase; our belief that our display products are well suited for new applications such as reading e-mail and browsing the Internet using digital wireless devices and other consumer electronics devices; our belief that small form factor displays will be a critical component

in the development of advanced wireless communications systems; our belief that one of the benefits of our display technology is the ability to produce high-resolution displays in small form factors; 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 expectation that a significant market for new wireless communication devices, including personal entertainment systems, will develop; 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 our interest income will decline in 2013; our expectation that we will not pay domestic federal taxes in the near term; our expectation that we will have taxes based on U.S. federal tax liabilities, on federal alternative minimum tax rules and on our foreign operations in 2013; our expectation that we will have a state tax provision in 2013; 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 expressio 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 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

We were incorporated in Delaware in 1984 and are a leading developer of Golden-i™ technologies and display products.

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, a wholly-owned subsidiary of the Company that held the Company's investment in Kopin Taiwan Corporation (KTC), 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 and we referred to them as our “III-V” products because we use elements categorized on the III and V columns of the periodic table of elements to manufacture such products. The aggregate purchase price was approximately $75 million, subject to certain adjustments, including working capital adjustments and escrow. Of the total consideration, $55 million was paid to the Company as of the Closing Date and $5 million was placed in escrow pending a final determination of adjustments and working capital as of the Closing Date. The remaining $15 million will be paid to the Company on the third anniversary of the Closing Date. For the years ended December 29, 2012, December 31, 2011 and December 25, 2010 our III-V revenues were $58.8 million, $66.5 million and $62.2 million, respectively. We have revised the prior period amounts for the impact of the sale of the III-V product line, which is reflected as discontinued operations.

Golden-i™ technologies are used to create hands-free voice and gesture controlled wireless computing systems primarily worn on the head that include an optical pod featuring our proprietary miniature flat panel displays. Golden-i technologies integrate a variety of commercially available software packages such as Microsoft Windows CE, Nuance Dragon NaturallySpeaking and Hillcrest Labs with our proprietary software and CyberDisplay products to create a reference design which we license to customers who wish to develop mobile industrial products. We licensed our first reference design in 2010 and our customer anticipates shipping products based on our technology in 2013. Through 2012 our revenues from licensing our Golden-i technologies has been de minimis.

Our display products consist of miniature, high performance, high resolution displays either sold separately or in various configurations with optical lenses and electronics contained in either plastic or metal housings. Current applications which include our miniature, high performance, high resolution display products are military devices, such as thermal weapon sights, and consumer devices such as digital cameras; devices that are capable of accessing the Internet using digital wireless devices and viewing data or video from other consumer electronics devices such as wireless handsets, smart phones or iPod™ storage devices. When our display products are configured as spatial light modulators, the applications include industrial equipment for 3D Automated Optical Inspection and cinematography cameras. We have sold our display 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. For fiscal years 2012, 2011 and 2010, 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	2012	2011	2010
Military Customers in Total	57 %	60 %	69 %
Raytheon Company	22 %	23 %	36 %
DRS RSTA Inc.	21 %	18 %	18 %
QiOptiq Defense Inc.	*	10 %	10 %
Ryoden Trading Company	12 %	15 %	11 %
U. S. Government funded research and development contracts	10 %	8 %	5 %

Our fiscal year ends on the last Saturday in December. The fiscal years ended December 29, 2012, December 31, 2011 and December 25, 2010 are referred to herein as fiscal years 2012, 2011 and 2010, respectively. Our principal executive offices are located at 200 John Hancock Road, Taunton, Massachusetts. Our telephone number is (508) 824-6696.

Industry Overview

Golden-i™ Technology

Over a billion wireless hand-held devices are sold annually for communication, data input, storage and retrieval, accessing the internet, and other purposes. The user interface for these devices is typically either a key pad or a touch screen. Derivative wireless devices such as Bluetooth headsets are available for the single purpose of allowing the user to access their wireless handsets' voice communication feature without holding the wireless handset. Some wireless devices include voice recognition software as an additional feature to allow the user to search the Internet. Recently, new products such as Bluetooth headsets that include a micro display for text messaging or email reading, and other devices which include a micro display, voice recognition and a camera, have been introduced. We believe wireless handset makers are looking to create products that work as a complement to the wireless handsets or to eventually replace the wireless handset. 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 operating system, voice recognition, noise cancellation and other software will be required. Improvements in reducing the size of processors, batteries and optics may also be necessary.

Display Products

Small form factor displays are used in military, consumer electronic and industrial products such as thermal weapon sights, digital cameras, training simulation 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 in wireless communications systems such as greater bandwidth and increased functionality, including real-time wireless data, broadband Internet access and mobile television, 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 currently available including transmissive, reflective and organic light-emitting diode. We offer transmissive and reflective display solutions. 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 blocking light emitted from a source located behind the LCD. The principal LCD technologies are passive and active matrix.

- Passive Matrix LCD. These displays are primarily used in calculators, 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 LCD. These displays are used primarily in wireless handsets, tablets, laptop computers, instrumentation and projection systems. In contrast to passive matrix LCDs, color active matrix LCDs incorporate three transistors at every pixel location. This arrangement allows each 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. The increased number of transistors required to produce those benefits, however, creates significant drawbacks, particularly in color applications.

Our Solution

Golden-i™ Technology

Our Golden-i™ technology is a computer headset that includes an optical pod with a display product, a microprocessor, memory and various commercially available software packages, such as Microsoft Windows CE, Nuance Dragon NaturallySpeaking and Hillcrest Labs motion control, that we license and that are managed by an operating system software we developed. In addition to the operating system we have incorporated Ask Ziggy's natural speech and Aurisound's noise cancellation technologies. The Golden-i Technology uses voice recognition as the primary user interface and allows the user to access information or operate remote devices through the Internet using WiFi or Bluetooth or potentially other wireless networks. The optical pod allows the user to view information such as technical diagrams, streaming video or face to face communication. When viewing schematics or similar documents the user is capable of zooming-in to see finer details or zooming out to see an entire system perspective. The Golden-i product has a camera feature which enables the user to stream live video to a remote subject matter expert so that both the user and expert can analyze the issue at the same time.

We believe the Golden-i technology will provide for increased worker productivity, safety and improved manufacturing quality through more efficient issue resolution and improved communication. Golden-i technology is 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 occupation, the environments they work in, 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

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 1280 x 1024 resolution, a device with a single display, backlight and optics in a plastic housing which we call an Electronic Viewfinder or EVF, and thermal weapon sight eyepieces which contain a display, light emitting diode, optics, and electronics in a hermetically sealed housing.

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.

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 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 displays 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 production partner, United Microelectronics Corporation, or UMC, fabricate integrated circuits for our CyberDisplay displays in their foundries in Taiwan. 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 Westborough, Massachusetts facility.

For military applications of our CyberDisplay display, after it has been packaged it is sent to our “Higher Level Assembly” or HLA, where it is incorporated into a module. We offer a variety of models with varying levels of complexity but common to all is a light emitting diode, optics and electronics in a housing unit.

Our reflective 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. and 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 pixilated silicon-based CMOS substrate which is manufactured by our production partner UMC 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 ferroelectic liquid crystal material which, when switched, enables the incoming illumination to be modulated.

Strategy

Our strategy is to develop products which are centered on the mobile world. Our micro display was created to be the destination point for the data flowing over the wireless networks and our Golden-i device is designed to provide a hands-free remote access, control and collaboration via the Internet through the wireless networks. Our business model is comprised of our traditional display products and our Golden-i technology products. We offer our display products to developers and manufacturers of military products, consumer electronic products, 3d metrology equipment or makers of the next generation of mobile devices, such as Bluetooth headsets with video capabilities. For our Golden-i technology, we offer to license our headset reference design and software and enter into a supply agreement for the optical pod which includes a display product. 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 micro display industry and we have been accumulating, either by internal efforts or through acquisition, a significant patent and know-how portfolio for our Golden-i technology. We own, exclusively license or have the sole right to sublicense more than 200 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 display and Golden-i technology.
- Maintain Our Technological Leadership. We are a recognized leader in the design, development and manufacture of high resolution micro displays and we believe our ability to develop innovative products based on our extensive materials science expertise 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 in the design and innovative, high-resolution, miniature flat panel displays. We intend to continue to focus our development efforts on our proprietary micro displays.
- License Golden-i with Key Product Manufacturers And Or Sell Display Components. Our strategy to monetize our Golden-i technologies is to licenses our technologies and know-how with manufacturers of wireless devices and also sell them our display products. We may license them an entire reference design system which includes a license to our patents and know-how, a prototype product design and software or we may license individual elements of the reference design system. We have partners who are interested in developing their own devices which include the use of a micro display. In such cases we will offer our micro displays for sale as standalone components.
- Strong U.S. Government Program Support. We perform a significant amount of work under research and development contracts with U.S. government agencies, such as the U.S. Department of the Army 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

Golden-i™ Products

Our business model is to generate revenues by licensing, for a royalty fee, the Golden-i technology and know-how, which includes the operating software and patented product designs, and selling CyberDisplay products to customers who develop and

manufacture, or distribute, products based on the Golden-i technology. In 2010 we entered into an agreement with Motorola Solutions (Motorola) to license them our Golden-i technology. The agreement gave Motorola an exclusive license in certain industrial fields, a non-exclusive in other fields and prohibits them from offering products in other fields. Our revenues in 2012 from the sale of Golden-i technology development kits and licenses were not significant.

Display Products

We currently sell our display products to our customers as either a single display component, a unit which includes a lens and backlight (referred to as an electronic view finder or EVF), or a complete module, which includes the display, lens, backlight, focus mechanism and electronics, which are assembled in a plastic or metal housing (referred to as higher level assemblies or HLA for military customers). We provide our display products to Olympus, Fuji and Sanyo for use in digital cameras and to the U.S. military and certain foreign governments for use in military applications.

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

For fiscal years 2012, 2011 and 2010, sales to military customers, excluding research and development contracts, as a percentage of total revenue were 57%, 60% and 69%, respectively.

For fiscal years 2012, 2011 and 2010, research and development revenues, primarily from multiple contracts with various U.S. governmental agencies, accounted for approximately 10%, 8% and 5%, respectively, of our total revenues.

For additional information with respect to our operating segments including sales and geographical information, see Note14 to our financial statements for the year ended December 29, 2012, included with this Form 10-K.

Sales and Marketing

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. Our strategy is to license our Golden-i technology to customers who will develop end user products. 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 military customers may purchase less than two thousand 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 is actively involved with a customer 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 works 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 display and Golden-i customers with incorporating our products into their products and to accelerate their design process, achieving cost-effective and manufacturable products, and ensuring a smooth transition into high volume production. This group 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 display 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 Golden-i products we develop software using both internal and external resources. For fiscal years 2012, 2011 and 2010 we incurred total research and development expenses of $14.3 million, $16.6 million and $13.2 million, respectively. Included in total research and development expenses are our internal development programs for new Golden-i technology and display products, which were $12.1 million, $13.2 million and $11.0 million, respectively, for fiscal years 2012, 2011 and 2010.

Display Products

Our 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 line, which we will use in succeeding generations of our display products. The pixel size of our current 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. Additional display development efforts include expanding the resolutions offered, increasing the quantity of display's 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.

Golden-i™ Products

Our Golden-i product development efforts are primarily focused on operating and application software development, noise cancellation, improving the optics in the display pod and reducing the size and power consumption of the unit.
Funded Research and Development

We have entered into various development contracts with agencies and prime contractors of the U.S. government. These contracts help support the continued development of our core technologies. We intend to continue to pursue U.S. government development contracts for applications that relate to our commercial and military product applications. Our contracts with U.S. government agencies and prime contractors to the U.S. government contain certain milestones relating to technology development and may be terminated by the government agencies 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. Revenues attributable to research and development contracts for fiscal years 2012, 2011 and 2010 totaled $3.3 million, $5.1 million and $3.2 million, respectively.
Competition
Display Products

The commercial display market is highly competitive and is currently dominated by large Asian-based electronics companies including AUO, 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, a display viewed in a similar fashion as using a set of binoculars, 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 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.

Golden-i™ Products

The markets Golden-i products are targeted at currently use 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.

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 licensors 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 sale 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 sales 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.

Investments in Related Businesses

On January 11, 2011, we purchased 100% of the outstanding common stock of Forth Dimension Displays Ltd. (FDD) for approximately $11.0 million of cash. Commencing in the first quarter of 2011 we consolidated the financial results of FDD.

At December 29, 2012, we owned 78% of Kowon Technology Co. LTD (Kowon) located in South Korea. Kowon's revenues are principally denominated in U.S. dollars and its local expenses are principally denominated in South Korean won. In addition, Kowon holds U.S. dollars to pay certain expenses including purchases from Kopin. Accordingly, Kowon's operations are subject to exchange rate fluctuations. Subsequent to year end we increased our ownership interest in Kowon to 93% by purchasing stock from the minority shareholders for $3.7 million. We plan to close the Kowon facility in 2013.

We owned approximately 90% of Kopin Taiwan Corp's (KTC) on December 29, 2012. We consolidated the financial statements of KTC as part of our financial statements. On January 16, 2013, we completed the sale of our III-V product line, including our approximate 90% interest in KTC.

One of our Directors is chairman of KTC and owns approximately 1% of the outstanding common stock of KTC.

During the period ended March 31, 2012, we acquired a 25% interest in Ikanos Consulting, Ltd. (Ikanos), a private company, for $0.7 million. On July 10, 2012, we invested an additional $2.5 million, which increased our interest in Ikanos to 51%. We began consolidating Ikanos into our financial statements on July 1, 2012.

We have a 12% interest in KoBrite, and are accounting for our ownership interest using the equity method. We recorded equity losses from our investment in KoBrite of $0.6 million, $0.3 million and $0.6 million in fiscal years 2012, 2011 and 2010, respectively.

Subsequent to year end we acquired the assets of Aurisound, a private company, for approximately $1.8 million and in connection with the acquisition we offered employment to Aurisound's founder. Our employment offer, which was accepted, included the issuance of 400,000 share of our common stock. 100,000 shares were immediately vested and 300,000 shares will vest upon the achievement of certain milestones.

We may from time to time make further equity investments in these and other companies engaged in certain aspects of the display and electronics industries as part of our business strategy. 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 29, 2012, our consolidated business employed 301 full-time and 3 part-time individuals. 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. 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 and chemicals. In addition, our higher-level CyberDisplay assemblies, binocular display module, and other modules include lenses, backlights, printed circuit boards and other components, which 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.

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 its 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, 200 John Hancock Road, Taunton, MA 02780.

Executive Officers of the Registrant

The following sets forth certain information with regard to our executive officers as of March 4, 2013 (ages are as of December 29, 2012):

John C.C. Fan, age 69
President, Chief Executive Officer and Chairman
Founded Kopin in 1985

Richard A. Sneider, age 52
Treasurer and Chief Financial Officer
Joined Kopin 1998

Hong Choi, age 61
Vice President and Chief Technology Officer
Joined Kopin in 2000

Bor-Yeu Tsaur, age 57
Executive Vice President—Display Operations
Joined Kopin in 1997

Michael Presz, age 59
Vice President—Government Programs and Special Projects
Joined Kopin in 1994

Item 1A. Risk Factors

The global economy in general and the United States economy specifically are experiencing a historic period of uncertainty which could impact our financial results and stock price, among other things. The United States economy is experiencing high levels of unemployment as compared to the recent past, large federal budget deficits and anticipated declining expenditures on military programs. These issues could have a severe adverse effect on our business and results of operation.

We have experienced a history of losses and have a significant accumulated deficit. Since inception, we have incurred significant net operating losses. In January 2013 we sold our III-V product line including our 90% interest in Kopin Taiwan Corporation (KTC). Our III-V product line accounted for 62.9%, 50.7%, and 51.7% of our fiscal year 2012, 2011 and 2010 revenues, respectively. As of December 29, 2012 we had an accumulated deficit of $143.0 million. We believe that our products are targeted towards markets that are 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 Golden-i™ technology may not develop or may take longer to develop than we anticipate which may impact our ability to grow revenues. We have developed a head-worn, voice and gesture controlled, hands-free cloud computing reference design which includes our Golden-i technology. Golden-i technology is a combination of commercially available software, such as Microsoft Windows CE, voice activated software technologies, such as Nuance Dragon NaturallySpeaking, and operating software that we internally developed or acquired. The Golden-i reference design is a headset that incorporates the Golden-i technology and one of our displays. Our business model is to license the Golden-i technology with or without our reference design and also sell displays to customers. This technology platform is targeted for industrial, military and "prosumer" markets. The Golden-i technology is significantly dependent on software which we have little experience in developing, marketing or licensing. The market demand for Golden-i technology is dependent on our ability to collaborate with software developers who will write application software in order to create utility in our customer's products. If a market for Golden-i technology does not develop or we are unable to create and license the Golden-i technology we may be unable to grow Golden-i revenues which will adversely affect our expectation of our future revenue and results of operations. In January 2013, we sold our III-V product line including our 90% interest in Kopin Taiwan Corporation (KTC). Our III-V product line accounted for $58.8 million or 62.9% of our fiscal year 2012 revenues. As a result of the sale of our III-V product line, our success in commercializing our Golden-i technology is very important in our ability to achieve positive cash flow and profitability. If we are unable to commercialize our Golden-i technology we may not be able to increase revenues, achieve profitability or positive cash flow.

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 markets in which we compete are highly competitive, and are rapidly changing. 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 license 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.

Our Golden-i technology may not be widely accepted by the market. Our success will in large part depend on the widespread adoption of the headset format of our Golden-i technology which utilizes one display. Customers may determine that the headset is not comfortable, weighs to much or the size and format of the display is too small.

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. An important part of our strategy to achieve revenue growth, profitability and positive cash flow is licensing the Golden-i technology. 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.

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.

We license intellectual property rights of others. Included in our Golden-i technology is commercially available software which we license from other companies. We may violate the terms of a license which could result in our license 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 Golden-i technology incorporates software that we license from other companies (Licensor) that require Golden-i enabled products 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 Licensor 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.

Our revenues and cash flows could be negatively affected if sales of our Display products for military applications significantly decline. A significant portion of our fiscal year 2013 revenues and cash flow are expected to come from sales of military products. 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 stated its intention to reduce spending on military programs, including the so-called federal sequestration that went into effect on March 1, 2013. In addition the majority of our sales to the U.S. military have been for the Thermal Weapon Sight (TWS) program and we expect that sales of our displays into the TWS program will decline significantly in 2013. Accordingly our ability to generate revenues and cash flow from sales to the U.S. military is dependent on our displays being qualified in new U.S. military programs and the U.S. military funding these new programs. If we are unable to be qualified into new U.S. military programs or these programs are not funded our ability to generate revenues, achieve profitability and positive cash flow will be negatively impacted.

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. In 2011, 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 on a Taiwanese foundry and a Korean foundry for the fabrication of integrated circuits for our display products. We have no long-term contracts with either of these two companies. These two companies use different methods to manufacture the integrated circuits and a shortage at one company cannot necessarily be supplied by the other company. One of the companies entered and exited bankruptcy in 2009. If either company were 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 these foundries 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 either 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.

We depend on third parties to provide integrated circuit chip sets and other critical raw materials for use with our Display products. 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 and other critical raw materials such as special glasses and chemicals. The critical raw materials, including the glasses and chemicals used in manufacturing the display products are used by other display manufacturers, many of which are much larger than us. In addition, our higher-level display assemblies, and other modules include lenses, backlights, printed circuit boards and other components, which 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. If any of these third party contractors or suppliers were unable or unwilling to supply these integrated circuit chip sets or other critical raw materials to us, we would be unable to manufacture and sell our display products until a replacement supplier could be found. 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. Since 2008 some of the vendors we use have experienced liquidity problems and have had difficulty obtaining inventory financing. 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 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.

Our competitors can provide integrated solutions which could result in reduced market share or impact our ability to grow. Many portable consumer electronic devices, including camcorders and digital still cameras, have two displays for viewing images, an electronic viewfinder (EVF) and a flip-out or group view display. We only provide the display that is used as the electronic viewfinder. Our competitors may offer both EVF and flip-out displays and both displays may be run by the same interface electronics. A customer who buys our display is required to buy the flip-out display from another vendor who may compete with us. This may require our customer to purchase additional interface electronics to run our display. Our competitors may be able to offer a bundled solution of both displays and the interface electronics cheaper than the cost of buying our display and the other display and the interface electronics separately. If we are unable to offer displays with sufficient performance advantages over other displays to justify the additional cost of buying individual components versus a bundled solution or if our customers cannot procure cost efficient interface electronics to run our display products we may lose market share or be unable to grow our business which in turn would adversely affect our ability to maintain profitability.

Our Display products may not be widely accepted by the market. Our success will in large part depend on the widespread adoption of the viewing format of our display products in multiple new applications. Our success also depends in part upon the widespread consumer acceptance of our customers' products. Our display products work best when used close to the eye, which may not be acceptable to consumers. In addition, our display products are not designed for a shared experience amongst multiple viewers at the same time. Potential customers may be reluctant to adopt our display products because of concerns surrounding perceived risks relating to:

- The introduction of our display technology generally;
- Consumer acceptance of our display products; and
- The relative complexity, reliability, usefulness and cost-effectiveness of our display products compared to other display products available in the market or that may be developed by our competitors.

In addition, our customers may be reluctant to rely upon a relatively small company like us for a critical component. We cannot assure investors that prospective customers will adopt our display products or that consumers will accept our display products in future applications. If we fail to achieve market acceptance of our display products,

our business may not be successful and we may not be able to maintain profitability.

We generally do not have long-term contracts with our Display customers, which makes forecasting our revenues and operating results difficult. We generally do not enter into long-term agreements with our commercial display 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 where 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 2011 we recorded an intangible asset impairment charge of $2.0 million and in 2012 and 2011 we recorded a goodwill impairment charge totaling $1.7 million and $3.0 million, respectively, all related to our acquisition of Forth Dimension Displays. During 2012, we recorded $0.7 million of goodwill and $0.6 million in intangible assets related to Ikanos. We may have to record additional intangible asset or goodwill write downs if Forth Dimension Displays or Ikanos does not achieve the operating results we expect, which will negatively affect our profitability.

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 several reasons, including:

- The timing and successful introduction of additional manufacturing capacity;
- The timing of the initial selection of our Golden-i 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.

We may incur significant liabilities if we fail to comply with stringent environmental laws and regulations and the International Traffic in Arms Regulations 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 International Traffic in Arms Regulations (ITAR) laws which regulate the export of technical data and sale 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 sales 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.

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.

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 negotiate or finance the acquisition or 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 2012 and 2011 we acquired 51% of the outstanding shares of Ikanos Consulting Ltd. and 100% of the outstanding shares of Forth Dimension Displays Ltd. (FDD), respectively. If we are unable to operate Ikanos and FDD profitably, our results of operations will be negatively affected.

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 shareholders 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 CyberDisplay 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. This facility’s lease expires in October 2013.

Our subsidiary, Kowon Technology Co., LTD, (Kowon) owns two adjacent facilities in Kyungii-Do, South Korea, in which it manufactures its products and in which its corporate headquarters are located. These facilities occupy an aggregate of 28,000 square feet. The Kowon facilities will be closed in 2013. Forth Dimension Displays, our subsidiary in Scotland, leases 20,000 square feet in Dalgety Bay. This facility’s lease expires in 2013. Ikanos Consulting, 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

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 29, 2012		
First Quarter	$4.08	$3.30
Second Quarter	4.05	3.06
Third Quarter	3.86	3.23
Fourth Quarter	3.87	2.94
Fiscal Year Ended December 31, 2011		
First Quarter	$4.40	$3.97
Second Quarter	5.22	4.29
Third Quarter	4.85	3.31
Fourth Quarter	4.24	3.07

As of February 19, 2013, there were approximately 449 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 29, 2012 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)	983,680	$ 5.26	2,070,249	(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 Stock Market and the S&P 500 Information Technology index. The graph assumes $100 was invested in each of the Company's common stock, the NASDAQ Stock Market and the S&P 500 Information Technology index on December 29, 2007. 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 Stock Market - U.S. Index
Issuer Purchase of Equity Securities
None
+

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 Form 10-K. We have revised the prior period amounts for the impact of the sale of the III-V product line, which is reflected as discontinued operations.

	Fiscal Year Ended				
	2012	2011	2010	2009	2008
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Net product revenues	$31,299	$59,509	$54,969	$62,512	$61,349
Research and development revenues	3,343	5,150	3,172	5,691	6,446
Total revenues	34,642	64,659	58,141	68,203	67,795
Expenses:					
Cost of product revenues	22,042	34,659	35,597	39,003	39,536
Research and development—funded programs	2,178	3,341	2,175	3,060	4,890
Research and development—internal	12,121	13,218	10,972	8,295	8,131
Selling, general and administrative	17,166	15,991	12,322	13,047	14,101
Impairment of intangible assets and goodwill	1,705	5,000	—	—	—

	55,212	72,209	61,066	63,405	66,658
(Loss) income from operations	(20,570)	(7,550)	(2,925)	4,798	1,137
Other income and expense:					
Interest income	1,126	1,291	1,978	2,053	3,160
Other income and (expense), net	174	143	(31)	464	49
Foreign currency transaction (losses) gains	(1,032)	10	(304)	(942)	2,296
Impairment of investment in Kenet	—	—	—	—	(2,691)
Loss on remeasurement of investment in Ikanos	(558)	—	—	—	—
Other-than-temporary impairment of marketable debt securities	—	(151)	—	(927)	(1,252)
Other-than-temporary impairment of Micrel common stock	—	—	—	—	(224)
Gain on sales of investments	856	369	2,598	—	—
Gain on sales of patents	—	156	770	6,324	—
	566	1,818	5,011	6,972	1,338
(Loss) income before (provision) benefit for income taxes, equity losses in unconsolidated affiliates and net loss (income) of noncontrolling interest	(20,004)	(5,732)	2,086	11,770	2,475
Tax (provision) benefit	(1,099)	—	54	(690)	(792)
(Loss) income before equity losses in unconsolidated affiliates and net loss (income) of noncontrolling interest	(21,103)	(5,732)	2,140	11,080	1,683
Equity losses in unconsolidated affiliates	(680)	(297)	(600)	(341)	(1,081)
(Loss) income from continuing operations	$(21,783)	$(6,029)	$1,540	$10,739	$602
Income from discontinued operations, net of tax	2,789	9,713	7,300	8,436	2,667
Net (loss) income	(18,994)	3,684	8,840	19,175	3,269
Net loss (income) attributable to the noncontrolling interest	632	(605)	(11)	268	(683)
Net (loss) income attributable to the controlling interest	$(18,362)	$3,079	$8,829	$19,443	$2,586
Net (loss) income per share:					
Basic:					
Continuing operations	$(0.33)	$(0.10)	$0.02	$0.16	$0.01
Discontinued operations	0.04	0.15	0.12	0.13	0.04
Net (loss) income per share:	$(0.29)	$0.05	$0.14	$0.29	$0.05
Diluted:					
Continuing operations	$(0.33)	$(0.10)	$0.02	$0.16	$0.01
Discontinued operations	0.04	0.15	0.11	0.13	0.04
Net (loss) income per share:	$(0.29)	$0.05	$0.13	$0.29	$0.05
Weighted average number of common shares outstanding:					