KOPIN CORP
Form 10-K
March 12, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 27, 2014

OR

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

For the transition period from to

Commission file number 0-19882

KOPIN CORPORATION

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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

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

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

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

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

Part I

Forward Looking Statements

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

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

Item 1. Business

Introduction

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

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

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

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

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

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

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

Industry Overview

Wearable Computing/Communicating

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

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

Our Solution

Kopin Wearable Technology

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

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

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

Display Products

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Strategy

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

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

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

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

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

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

Markets and Customers

Wearable products

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

Display Products

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

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

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

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

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

Sales and Marketing

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

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

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

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

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

Product Development

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

Component Products

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

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

Headset Concept Design Products

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

Funded Research and Development

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

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

Competition

Component Products

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

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

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

Headset Concept Design Products

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

Patents, Proprietary Rights and Licenses

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

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

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

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

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

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

Government Regulations

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

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

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

Investments in Related Businesses

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

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

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

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

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

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

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

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

Employees

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

Sources and Availability of Raw Materials and Components

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

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

Web Availability

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

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

Executive Officers of the Registrant

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

John C.C. Fan, age 71

President, Chief Executive Officer and Chairman

Founded Kopin in 1984

Bor-Yeu Tsaur, age 59

Executive Vice President—Display Operations

Joined Kopin in 1997

Richard A. Sneider, age 54