

KOPIN CORP
Form 10-Q
May 11, 2017

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

FORM 10-Q

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

For the quarterly period ended April 1, 2017

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 (I.R.S. Employer
incorporation or organization Identification No.)

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

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

| Class | Outstanding as of May 5, 2017 |
|-------------------------------|----------------------------------|
| Common Stock, par value \$.01 | 75,195,363 |

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Kopin Corporation
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Part 1: FINANCIAL INFORMATION

Item 1: Condensed Consolidated Financial Statements (Unaudited)

KOPIN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

| | April 1, 2017 | December 31, 2016 |
|--|------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and equivalents | \$ 18,393,066 | \$ 15,822,495 |
| Marketable debt securities, at fair value | 49,357,503 | 61,375,401 |
| Accounts receivable, net of allowance of \$136,000 in 2017 and 2016 | 2,390,660 | 1,664,488 |
| Unbilled receivables | — | 34,707 |
| Inventory | 4,194,821 | 3,302,112 |
| Prepaid taxes | 116,921 | 341,144 |
| Prepaid expenses and other current assets | 1,147,074 | 853,757 |
| Total current assets | 75,600,045 | 83,394,104 |
| Property, plant and equipment, net | 2,999,590 | 2,976,006 |
| Goodwill | 2,326,948 | 844,023 |
| Intangible assets, net | 2,302,364 | — |
| Other assets | 823,746 | 618,139 |
| Total assets | \$ 84,052,693 | \$ 87,832,272 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,878,123 | \$ 4,355,462 |
| Accrued payroll and expenses | 2,393,195 | 1,443,976 |
| Accrued warranty | 736,000 | 518,000 |
| Billings in excess of revenue earned | 1,134,558 | 981,761 |
| Other accrued liabilities | 3,358,760 | 2,560,144 |
| Income tax payable | 936,866 | 935,364 |
| Deferred tax liabilities | 2,686,000 | 2,571,000 |
| Total current liabilities | 15,123,502 | 13,365,707 |
| Asset retirement obligations | 251,186 | 246,922 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, par value \$.01 per share: authorized, 3,000 shares; none issued | — | — |
| Common stock, par value \$.01 per share: authorized, 120,000,000 shares; issued 79,708,618 shares in 2017 and 79,648,618 shares in 2016; outstanding 64,538,686 shares in 2017 and 64,538,686 shares in 2016 | 766,409 | 766,409 |
| Additional paid-in capital | 329,337,949 | 328,524,644 |
| Treasury stock (12,102,258 shares in 2017 and 2016, at cost) | (42,741,551) | (42,741,551) |
| Accumulated other comprehensive income | 3,132,503 | 1,570,971 |
| Accumulated deficit | (221,901,228) | (214,042,787) |
| Total Kopin Corporation stockholders' equity | 68,594,082 | 74,077,686 |
| Noncontrolling interest | 83,923 | 141,957 |
| Total stockholders' equity | 68,678,005 | 74,219,643 |

| | | |
|--|--------------|--------------|
| Total liabilities and stockholders' equity | \$84,052,693 | \$87,832,272 |
|--|--------------|--------------|

See notes to unaudited condensed consolidated financial statements

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KOPIN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | April 1, 2017 | March 26, 2016 |
| Revenues: | | |
| Net product revenues | \$3,933,142 | \$5,978,134 |
| Research and development revenues | 444,985 | 141,004 |
| | 4,378,127 | 6,119,138 |
| Expenses: | | |
| Cost of product revenues | 3,117,357 | 4,636,041 |
| Research and development | 4,281,870 | 4,039,951 |
| Selling, general and administration | 5,641,684 | 3,760,849 |
| | 13,040,911 | 12,436,841 |
| Loss from operations | (8,662,784) | (6,317,703) |
| Other income and expense: | | |
| Interest income | 233,777 | 164,948 |
| Other income (expense), net | 534,411 | (39,093) |
| Foreign currency transaction (losses) | (1,191,283) | (501,940) |
| | (423,095) | (376,085) |
| Loss before benefit (provision) for income taxes and net loss (income) attributable to noncontrolling interest | (9,085,879) | (6,693,788) |
| Tax benefit (provision) | 1,146,000 | (141,000) |
| Net loss | (7,939,879) | (6,834,788) |
| Net loss (income) attributable to the noncontrolling interest | 81,438 | (98,673) |
| Net loss attributable to the controlling interest | \$(7,858,441) | \$(6,933,461) |
| Net loss per share | | |
| Basic | \$(0.12) | \$(0.11) |
| Diluted | \$(0.12) | \$(0.11) |
| Weighted average number of common shares outstanding | | |
| Basic | 64,538,686 | 63,978,048 |
| Diluted | 64,538,686 | 63,978,048 |
| See notes to unaudited condensed consolidated financial statements | | |

KOPIN CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
 (Unaudited)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | April 1, 2017 | March 26, 2016 |
| Net loss | \$(7,939,879) | \$(6,834,788) |
| Other comprehensive income: | | |
| Foreign currency translation adjustments | 1,597,406 | 736,184 |
| Unrealized holding (losses) gains on marketable securities | (11,314) | 317,510 |
| Reclassification of holding (losses) gains in net loss | (1,156) | 4,167 |
| Other comprehensive income | 1,584,936 | 1,057,861 |
| Comprehensive loss | \$(6,354,943) | \$(5,776,927) |
| Comprehensive income attributable to the noncontrolling interest | 58,034 | 66,645 |
| Comprehensive loss attributable to controlling interest | \$(6,296,909) | \$(5,710,282) |
| See notes to unaudited condensed consolidated financial statements | | |

KOPIN CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 (Unaudited)

| | Common Stock | | Additional Paid-in Capital | Treasury Stock | Accumulated Other Comprehensive Income | | Accumulated Deficit | Total Kopin Corporation Stockholders' Equity | Noncontrolling Interest | Total Stockholders' Equity |
|----------------------------------|--------------|-----------|----------------------------------|-------------------|---|-----------------|------------------------|---|----------------------------|----------------------------------|
| | Shares | Amount | | | | | | | | |
| Balance, December 31, 2016 | 76,640,943 | \$766,409 | \$328,524,644 | \$(42,741,551) | \$1,570,971 | \$(214,042,787) | \$74,077,686 | \$141,957 | \$ | |
| Stock-based compensation | — | — | 813,305 | — | — | — | 813,305 | — | 8 | |
| Other comprehensive income | — | — | — | — | 1,561,532 | — | 1,561,532 | 23,404 | 1 | |
| Net loss | — | — | — | — | — | (7,858,441) | (7,858,441) | (81,438) | (| |
| Balance, April 1, 2017 | 76,640,943 | \$766,409 | \$329,337,949 | \$(42,741,551) | \$3,132,503 | \$(221,901,228) | \$68,594,082 | \$83,923 | \$ | |

See notes to unaudited condensed consolidated financial statements

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KOPIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Three months ended | |
|---|--------------------|-------------------|
| | April 1, 2017 | March 26, 2016 |
| Cash flows from operating activities: | | |
| Net loss | \$(7,939,879) | \$(6,834,788) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 443,174 | 335,478 |
| Accretion (amortization) of premium or discount on marketable debt securities | 27,256 | 37,971 |
| Stock-based compensation | 1,292,105 | 56,454 |
| Foreign currency losses | 1,190,199 | 485,294 |
| Unrealized gain on warrant | (274,000) | — |
| Deferred income taxes | (1,168,962) | 123,000 |
| Other non-cash items | 129,884 | 94,050 |
| Changes in assets and liabilities, net of acquired assets and liabilities: | | |
| Accounts receivable | (210,823) | (123,073) |
| Inventory | (249,340) | (306,431) |
| Prepaid expenses and other current assets | (22,082) | 541,455 |
| Accounts payable and accrued expenses | 10,736 | 98,847 |
| Billings in excess of revenue earned | 152,797 | (77,580) |
| Net cash used in operating activities | (6,618,935) | (5,569,323) |
| Cash flows from investing activities: | | |
| Other assets | (12,346) | (92,276) |
| Capital expenditures | (297,983) | (223,520) |
| Proceeds from sale of marketable debt securities | 13,519,291 | 11,229,734 |
| Purchase of marketable debt securities | (948,637) | (13,474,384) |
| Deposits on property and plant held for sale | — | 791,623 |
| Cash paid for acquisition, net of cash acquired | (3,247,397) | — |
| Proceeds from sale of III-V product line | — | 15,000,000 |
| Net cash provided by investing activities | 9,012,928 | 13,231,177 |
| Cash flows from financing activities: | | |
| Settlements of restricted stock for tax withholding obligations | — | (1,500) |
| Net cash used in financing activities | — | (1,500) |
| Effect of exchange rate changes on cash | 176,578 | 191,088 |
| Net increase in cash and equivalents | 2,570,571 | 7,851,442 |
| Cash and equivalents: | | |
| Beginning of period | 15,822,495 | 19,767,889 |
| End of period | \$18,393,066 | \$27,619,331 |
| Supplemental disclosure of cash flow information: | | |
| Supplemental schedule of noncash investing activities: | | |
| Construction in progress included in accrued expenses | \$— | \$136,000 |

See notes to unaudited condensed consolidated financial statements

KOPIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Kopin Corporation (the Company) as of April 1, 2017 and for the three months ended April 1, 2017 and March 26, 2016 are unaudited and include all adjustments which, in the opinion of management, are necessary to present fairly the results of operations for the periods then ended. These condensed consolidated financial statements should be read in conjunction with the Company's financial statements and notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The results of the Company's operations for any interim period are not necessarily indicative of the results of the Company's operations for any other interim period or for a full fiscal year.

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). This new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In addition, ASU 2014-09 provides guidance on accounting for certain revenue-related costs including, but not limited to, when to capitalize costs associated with obtaining and fulfilling a contract. The underlying principle is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The new standard also requires entities to enhance disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company anticipates applying the guidance in ASU 2014-09 after January 1, 2018. The Company is currently evaluating the expected impact of this new guidance on its consolidated financial statements and available adoption methods.

Leases

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (Topic 842) Leases. Topic 842 supersedes the lease recognition requirements in Accounting Standards Codification Topic 840, "Leases". Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. Topic 842 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2018. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, and there are certain optional practical expedients that an entity may elect to apply. Full retrospective application is prohibited and early adoption by public entities is permitted. The Company is currently evaluating the expected impact of this new guidance on its consolidated financial statements. The Company has not yet made any decision on the timing of adoption or method of adoption with respect to the optional practical expedients.

Business Combinations

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805). The new guidance clarifies the definition of a business that an entity uses to determine whether a transaction should be accounted for as an asset acquisition (or disposal) or a business combination. The guidance is expected to cause fewer acquired sets of assets (and liabilities) to be identified as businesses. The guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted for transactions that meet certain requirements. The Company is evaluating the impact this standard will have on its financial statements.

Intangibles- Goodwill and Other

In January 2017, the FASB issued ASU 2017-04, Intangibles- Goodwill and Other (Topic 350). The new guidance simplifies the accounting for goodwill impairments by eliminating Step 2 from the goodwill impairment test. The guidance requires, among other things, recognition of an impairment loss when the fair value of a reporting unit exceeds its carrying amount. The loss recognized is limited to the total amount of goodwill allocated to that reporting unit. The guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is

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permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is evaluating the impact this standard will have on its financial statements.

2. CASH AND EQUIVALENTS AND MARKETABLE SECURITIES

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

Marketable debt securities consist primarily of commercial paper, medium-term corporate notes, and U.S. government and agency backed securities. The Company classifies these marketable debt securities as available-for-sale at fair value in "Marketable debt securities, at fair value." The Company's investment in GCS Holdings is included in "Other Assets" as available-for-sale and at fair value. The Company records the amortization of premium and accretion of discounts on marketable debt securities in the results of operations.

The Company uses the specific identification method as a basis for determining cost and calculating realized gains and losses with respect to marketable debt securities. The gross gains and losses realized related to sales and maturities of marketable debt securities were not material during the three months ended April 1, 2017 and the year ended December 31, 2016.

Investments in available-for-sale marketable debt securities are as follows at April 1, 2017 and December 31, 2016:

| | Amortized Cost | | Unrealized Gains | | Unrealized Losses | | Fair Value | |
|--|----------------|--------------|------------------|------|-------------------|-------------|--------------|--------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| U.S. government and agency backed securities | \$35,116,536 | \$36,343,817 | \$ — | — | \$(201,268) | \$(252,556) | \$34,915,268 | \$36,091,261 |
| Corporate debt and certificates of deposit | 14,475,561 | 25,323,428 | — | — | (33,326) | (39,288) | 14,442,235 | 25,284,140 |
| Total | \$49,592,097 | \$61,667,245 | \$ — | — | \$(234,594) | \$(291,844) | \$49,357,503 | \$61,375,401 |

The contractual maturity of the Company's marketable debt securities is as follows at April 1, 2017:

| | Less than One year | One to Five years | Greater than Five years | Total |
|--|-----------------------|----------------------|-------------------------------|--------------|
| U.S. government and agency backed securities | \$15,495,380 | \$15,501,588 | \$3,918,300 | \$34,915,268 |
| Corporate debt and certificates of deposit | 13,484,735 | 957,500 | — | 14,442,235 |
| Total | \$28,980,115 | \$16,459,088 | \$3,918,300 | \$49,357,503 |

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

The Company further estimates the amount of OTTI resulting from a decline in the creditworthiness of the issuer (credit-related OTTI) and the amount of non credit-related OTTI. Non credit-related OTTI can be caused by such factors as market illiquidity. Credit-related OTTI is recognized in earnings while non credit-related OTTI on securities not expected to be sold is recognized in other comprehensive income (loss). The Company did not record an OTTI for the three months ended April 1, 2017 and March 26, 2016.

3. FAIR VALUE MEASUREMENTS

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

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

| | Fair Value Measurement April 1, 2017 Using: | | | |
|----------------------------|--|--------------|--------------|-----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Cash and Equivalents | \$18,393,066 | \$18,393,066 | \$— | \$— |
| U.S. Government Securities | 34,915,268 | 6,943,660 | 27,971,608 | — |
| Corporate Debt | 6,832,185 | — | 6,832,185 | — |
| Certificates of Deposit | 7,610,050 | — | 7,610,050 | — |
| GCS Holdings | 261,788 | 261,788 | — | — |
| Warrant | 274,000 | — | — | 274,000 |
| | \$68,286,357 | \$25,598,514 | \$42,413,843 | \$274,000 |

| | Fair Value Measurement December 31, 2016 Using: | | | |
|----------------------------|--|--------------|--------------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Cash and Equivalents | \$15,822,495 | \$15,822,495 | \$— | \$— |
| U.S. Government Securities | 36,091,261 | 7,144,767 | 28,946,494 | — |
| Corporate Debt | 7,557,029 | — | 7,557,029 | — |
| Certificates of Deposit | 17,727,111 | — | 17,727,111 | — |
| GCS Holdings | 331,454 | 331,454 | — | — |
| | \$77,529,350 | \$23,298,716 | \$54,230,634 | \$— |

The corporate debt consists of floating rate notes with a maturity that is over multiple years but has interest rates which are reset every three months based on the then-current three month London Interbank Offering Rate (three month Libor). The Company validates the fair market values of the financial instruments above by using discounted cash flow models, obtaining independent pricing of the securities or through the use of a model which incorporates the three month Libor, the credit default swap rate of the issuer and the bid and ask price spread of the same or similar investments which are traded on several markets. The Company has a warrant to acquire up to 15% of the next round of equity offered by a customer as part of the licensing of technology to the customer. The fair market value of the warrant was determined based upon expectations from the customer's management and then applying probabilities of occurrence and discounting back the values using expected returns required for similar instruments.

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

4. INVENTORY

Inventory is stated at the lower of cost (determined on the first-in, first-out) or market and consists of the following at April 1, 2017 and December 31, 2016:

| | April 1, 2017 | December 31, 2016 |
|---------------|------------------|----------------------|
| Raw materials | \$2,119,312 | \$1,986,491 |

| | | |
|-----------------|-------------|--------------|
| Work-in-process | 1,677,043 | 1,186,162 |
| Finished goods | 398,466 | 129,459 |
| | \$4,194,821 | \$ 3,302,112 |

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5. NET LOSS PER SHARE

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

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

| Three Months Ended | |
|--------------------|-----------|
| April 1, | March 26, |
| 2017 | 2016 |

| | | |
|------------------------------------|-----------|-----------|
| Non-vested restricted common stock | 3,067,674 | 2,694,016 |
|------------------------------------|-----------|-----------|

6. STOCK-BASED COMPENSATION

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

Accordingly in some periods there is expense and in other periods the expense may reverse. The Company recognizes compensation costs on a straight-line basis over the requisite service period for time-vested awards.

Non-Vested Restricted Common Stock

| | Shares | Weighted Average Grant Fair Value |
|----------------------------|-----------|---|
| Balance, December 31, 2016 | 3,007,674 | \$ 3.21 |
| Granted | 60,000 | 3.43 |
| Forfeited | — | — |
| Vested | — | — |
| Balance, April 1, 2017 | 3,067,674 | \$ 3.22 |

Stock-Based Compensation

The following table summarizes stock-based compensation expense within each of the categories below as it relates to non-vested restricted common stock awards for the three months ended April 1, 2017 and March 26, 2016 (no tax benefits were recognized):

| | Three Months Ended | |
|-------------------------------------|--------------------|-------------------|
| | April 1, 2017 | March 26, 2016 |
| Cost of component revenues | \$ 104,092 | \$ 142,534 |
| Research and development | 218,558 | 116,895 |
| Selling, general and administrative | 969,455 | (202,975) |
| Total | \$ 1,292,105 | \$ 56,454 |

Unrecognized compensation expense for non-vested restricted common stock as of April 1, 2017 totaled \$5.3 million and is expected to be recognized over a weighted average period of approximately three years.

The Selling, general and administrative expense includes Liability Awards and the increase in expense for the three month period ended April 1, 2017 as compared to March 26, 2016 is the result of a higher stock price of the Company at April 1, 2017 as compared to March 26, 2016. Included in Other accrued liabilities is \$1.6 million in deferred compensation from equity awards which are classified as Liability Awards.

7. NOTE RECEIVABLE

In January 2016, the Company received the final \$15.0 million payment resulting from the sale of its III-V product line and its investment in KTC.

8. ACCRUED WARRANTY

The Company typically warrants its products against defect for 12 months. A provision for estimated future costs and estimated returns for credit relating to such warranty is recorded in the period when product is shipped and revenue recognized, and is updated as additional information becomes available. The Company's estimate of future costs to satisfy warranty obligations is based primarily on historical warranty expense experienced and a provision for potential future product failures. Changes in the accrued warranty for the three months ended April 1, 2017 are as follows:

| | |
|----------------------------|------------|
| Balance, December 31, 2016 | \$ 518,000 |
| Additions | 100,000 |
| Additions from acquisition | 218,000 |
| Claims | (100,000) |
| Balance, April 1, 2017 | \$ 736,000 |

9. INCOME TAXES

The Company's tax benefit of approximately \$1.1 million for the three months ended April 1, 2017 represents a net benefit of \$62,000 for foreign income taxes including interest income on intercompany loans, uncertain tax positions and a benefit for the net reduction in estimated foreign withholding. In addition, as a result of the acquisition of a company, we recognized \$1.1 million of net deferred tax liabilities which provides evidence of recoverability of our net deferred tax assets that previously carried a full valuation allowance. We reduced the valuation allowance on our net deferred tax assets in the amount of \$1.1 million and such reduction was recognized as a benefit for income taxes for the year three month period ended April 1, 2017. The Company's tax provision of approximately \$141,000 for the three months ended March 26, 2016, represents the net movement in estimated foreign withholding on anticipated future remitted earnings of an international subsidiary and state taxes. As of April 1, 2017, the Company has available for tax purposes U.S. federal NOLs of approximately \$141 million expiring through 2036. The Company has recognized a full valuation allowance on its domestic and certain foreign net deferred tax assets due to the uncertainty of realization of such assets. During the three months ended April 1, 2017 we recorded \$0.2 million of expense resulting from the amortization of the intangibles.

Ownership changes, as defined by the Internal Revenue Code, may substantially limit the amount of net operating loss carryforwards that can be utilized annually to offset future taxable income. The ownership change in 2017 did not result in an annual net operating loss limitation as the acquired entity was an S Corporation and did not have loss carryforwards. Subsequent ownership changes could affect the limitation in future years. Such annual limitations could result in the expiration of net operating loss and tax credit carryforwards before utilization.

The tax years 2001 through 2016 remain open to examination by major taxing jurisdictions to which the Company is subject to United States federal tax for the consolidated group. These periods have carryforward attributes generated in years past that may still be adjusted upon examination by the Internal Revenue Service or state tax authorities if they have or will be used in a future period. State statutes are generally shorter with shorter carryforward periods. The Company is currently not under examination by the Internal Revenue Service and is currently under examination by Massachusetts for the 2013 tax year. The Company recognizes both accrued interest and penalties related to its uncertain tax positions related to intercompany loan interest and potential transfer pricing exposure related to its Korean subsidiary.

The Company has concluded that it does not maintain its permanent reinvestment assertion with regard to the unremitted earnings of its Korean subsidiaries. As such, it accrues U.S. tax for the possible future repatriation of these unremitted foreign earnings. If the Company were to repatriate these earnings, it expects to have foreign withholding at a rate of 16.5 % and does not expect any taxes to be paid in the U.S when repatriated as it currently is expected to be a return of capital.

10. BUSINESS COMBINATION

In March 2017, the Company purchased 100% of the outstanding common stock of a company for \$3.7 million. Additional payments of up to \$2.0 million may be required if certain future operating performance milestones are met and the selling shareholders remain employed through March 2020. As there is requirement to remain employed to earn the contingent payments, they will be treated as compensation expense. Commencing on the date of acquisition, the Company consolidated the financial results of the acquired company. The identifiable assets acquired and liabilities assumed at the acquisition date have been recognized at fair value of the acquired company.

The allocation of the purchase price is as follows:

| | |
|--------------------------------|-----------|
| Cash and marketable securities | \$2,600 |
| Accounts receivable | 490,700 |
| Inventory | 768,400 |
| Other identifiable assets | 46,800 |
| Order backlog | 840,000 |
| Customer relationships | 1,000,000 |
| Developed technology | 460,000 |

| | |
|------------------------------|--------------|
| Trademark portfolio | 160,000 |
| Current liabilities | (480,500) |
| Net deferred tax liabilities | (1,084,000) |
| Goodwill | 1,477,000 |
| Total | \$3,681,000 |

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The Company's goodwill balance is as follows:

| | Kopin | Industrial | Total |
|--|-----------|-------------|-------------|
| Balance, December 31, 2016 | \$844,023 | \$— | \$844,023 |
| March 2017 acquisition | — | 1,477,000 | 1,477,000 |
| Change due to exchange rate fluctuations | 5,925 | — | 5,925 |
| Balance, April 1, 2017 | \$849,948 | \$1,477,000 | \$2,326,948 |

The identified intangible assets will be amortized on a straight-line basis over the following lives, in years:

| | |
|------------------------|---|
| Order backlog | 1 |
| Customer relationships | 2 |
| Developed technology | 2 |
| Trademark portfolio | 2 |

The Company recognized \$0.2 million in amortization for the three months ended April 1, 2017 related to its intangible assets. In conjunction with the acquisition the Company recorded deferred tax liabilities of approximately \$1.1 million associated with the future non-deductible amortization of the intangible assets. These deferred tax liabilities can be used to offset the Company's net deferred tax assets in future years. The Company reduced the valuation allowance on its net deferred tax assets in the amount of \$1.1 million and such reduction was recognized as a benefit for income taxes for the three month period ended April 1, 2017. Acquisition expenses were approximately \$0.2 million and are recorded in selling, general and administration expenses.

The following unaudited supplemental pro forma disclosures are provided for the three month periods ended April 1, 2017 and March 26, 2016, assuming the acquisition of the company had occurred as of December 26, 2015. All intercompany transactions have been eliminated.

| | Three months ended | |
|----------|--------------------|-------------------|
| | April 1, 2017 | March 26, 2016 |
| Revenues | \$4,982,000 | \$6,374,000 |
| Net loss | (8,553,000) | (7,312,000) |

For the three month period ended April 1, 2017 the revenues and net loss from the acquired company were \$396,000 and \$78,000, respectively.

11. SEGMENTS AND GEOGRAPHICAL INFORMATION

The Company's chief operating decision maker is its Chief Executive Officer. The Company has determined it has two reportable segments, Industrial, which includes the operations that develop and manufacture its reflective display products for test and simulation products, and Kopin, which includes the operations that develop and manufacture its other products. The following table presents the Company's reportable segment results (in thousands):

| | Three Months Ended | | |
|---|--------------------|------------|----------|
| | April 01, 2017 | | |
| | Kopin | Industrial | Total |
| Revenues | \$2,959 | \$ 1,419 | \$4,378 |
| Net loss attributable to the controlling interest | (7,911) | 53 | (7,858) |
| Total assets | 76,612 | 7,441 | 84,053 |
| Long-lived assets | 2,968 | 32 | 3,000 |

Three Months Ended
March 26, 2016
Kopin Industrial Total

| | | | |
|---|----------|--------|----------|
| Revenues | \$5,148 | \$ 971 | \$6,119 |
| Net loss attributable to the controlling interest | (6,571) | (346) | (6,917) |
| Total assets | 99,811 | 1,512 | 101,323 |
| Long-lived assets | 2,695 | 18 | 2,713 |
| Property and Plant held for sale | 861 | — | 861 |

The total assets of Kopin are net of \$6.3 million and \$5.2 million in intercompany loans to Industrial as of April 1, 2017 and March 26, 2016, respectively.

Previously the Company had two segments consisting of Kopin and FDD. The acquired company is included in the segment formerly known as FDD and the segment has been renamed to Industrial.

During the three month periods ended April 1, 2017 and March 26, 2016, the Company derived its sales from the following geographies (as a percentage of net revenues):

| | Three Months Ended | | | |
|----------------|--------------------|-------|----------------|-------|
| | April 1, 2017 | | March 26, 2016 | |
| United States | 49 % | 29 % | 29 % | 29 % |
| Others | — % | — % | — % | — % |
| Americas | 49 % | 29 % | 29 % | 29 % |
| Asia-Pacific | 28 % | 51 % | 51 % | 51 % |
| Europe | 23 % | 20 % | 20 % | 20 % |
| Total Revenues | 100 % | 100 % | 100 % | 100 % |

12. LITIGATION

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

13. AMOUNTS DUE TO/DUE FROM AFFILIATES

During the first quarter of 2017 the Company had the following transactions with affiliates:

| | Sales | Purchases |
|-------------|----------|-----------|
| Affiliate 1 | \$— | \$ 9,000 |
| Affiliate 2 | \$62,000 | \$ — |
| | \$62,000 | \$ 9,000 |

At April 1, 2017, the Company had the following receivables and payables with affiliates:

| | Receivables | Payables |
|-------------|-------------|----------|
| Affiliate 1 | \$ — | \$ 1,000 |
| Affiliate 2 | \$ 27,000 | \$ — |
| | \$ 27,000 | \$ 1,000 |

14. IMMATERIAL RESTATEMENT

During the third quarter of 2016, the Company discovered embezzlement activities at its Korean subsidiary. Based upon the results of forensic investigation procedures, the Company identified that the embezzlement activities occurred from fiscal year 2011 through fiscal year 2016. The embezzlement resulted in a total theft loss of \$1,589,000 over that period and as a result of the embezzlement we have made the following correcting adjustments to the amounts presented in our previously issued quarterly financial information.

In the three month period ended March 26, 2016, the Company has recorded in Other income (expense), net, embezzlement expense of approximately \$77,000, representing the total amount of theft loss that occurred during the first quarter of fiscal 2016. Of that amount, \$61,000 had previously been expensed, although misclassified (\$11,000 as Cost of component revenues and \$50,000 as Foreign currency transaction losses), and \$16,000 had been incurred but not yet recorded in the first quarter of 2016. Accordingly, the embezzlement expense recorded in the accompanying financial statements includes the effects of correcting these misstatements.

15. SUBSEQUENT EVENTS

On April 20, 2017, the Company completed the sale of 7.6 million shares of the Company's common stock to Goertek, Inc. and received cash proceeds of approximately \$24.7 million. The 7.6 million shares of the Company's common stock will be issued from the Company's treasury stock.

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

Forward Looking Statements

This Quarterly Report on Form 10-Q (including the information incorporated by reference) contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the United States Private Securities Litigation Reform Act of 1995, and that involve risks and uncertainties. These statements and other risks described below as well as those discussed elsewhere in this Quarterly Report Form 10-Q, documents incorporated by reference and other documents and reports that we file periodically with the Securities and Exchange Commission (“SEC”) include, without limitation, statements relating to our belief that we will incur significant development and marketing costs in 2017 to commercialize our Wearable technologies; our expectation that the cash and marketable debt securities held by Kowon will eventually be remitted back to the U.S.; our expectation that customers that purchase our products for Wearable applications will launch products in 2017; our expectation that we will offer our proprietary noise cancellation chip which we refer to as “Whisper Chip™” in 2017; our expectation that any market risk associated with our international operations is unlikely to have a material adverse effect on our business, financial condition or results of operation; our belief that a strengthening of the U.S. dollar could increase the price of our products in foreign markets; our expectation that we will expend between \$2.0 million and \$3.0 million on capital expenditures over the next twelve months; 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 2017; our expectation that we will have a state tax provision in 2017; 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

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material. This Quarterly Report on Form 10-Q should be read in conjunction with our Form 10-K and other documents filed with the Securities and Exchange Commission. Our Form 10-K and other documents we have filed with the Securities and Exchange Commission also contain these additional forward-looking statements. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate, management's beliefs, and assumptions made by management. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of us. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “could”, “seeks”, “estimates”, and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements, whether as a result of new information, future events or otherwise. Factors that could cause or contribute to such differences in outcomes and results include, but are not limited to, those discussed below in Item 1A and those set forth in our other periodic filings filed with the Securities and Exchange Commission. Except as required by law, we do not intend to update any forward-looking statements even if new information becomes available or other events occur in the future.

Critical Accounting Policies

Management's discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We regularly evaluate our estimates used in the preparation of our financial statements, including those related to revenue recognition under the percentage of completion method, bad debts, inventories, warranty reserves, investment valuations, valuation of stock compensation awards and recoverability of deferred tax assets. When we make acquisitions we use estimates in determining the allocation of the purchase price. These estimates included the forecasted operating results and cash flow projections of the acquired company, the appropriate time period to analyze the forecasted operating results and cash flow projections, additional investments, if any, in order to complete development of products and the cost to bring them to market, the weighted average cost of capital for the Company and discount rates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not apparent from other sources. Actual results will most likely differ from these estimates. Further detail regarding our critical accounting policies can be found in “Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Business Matters

We were incorporated in Delaware in 1984 and are a leading inventor, developer, manufacturer and seller of Wearable technologies which include components and systems.

Kopin Wearable technology includes component technologies which can be integrated to create products, and proprietary headset systems which use voice as the primary user interface and, through the use of wireless technologies, can contact other user devices in close proximity or information from the cloud.

Components

The components we offer for sale primarily consist of our displays, backlights, ASICs and optical lenses. In 2017, we also anticipate offering our proprietary noise cancellation chip which we refer to as “Whisper Chip™”.

Our principal display products are miniature high density color or monochrome Active Matrix Liquid Crystal Displays (AMLCDs) with resolutions that 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 or in combination with our other components assembled in a unit. For example, we sell a module unit which includes a single display, backlight and optics in a plastic housing, a binocular display module unit which includes two displays, backlights and optics in a plastic housing or a Higher-Level Assembly (HLA) which contains a display, light emitting diode based illumination, optics, and electronics in a sealed housing, primarily for 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 reflective LCOS display 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.

We offer a variety of optical lenses, some of which we have developed internally and others we license the rights to sell. We also offer a variety of backlights, some of which we have developed and are “off-the-shelf” components. Our lenses come in a variety of sizes with the smallest being our Pupil lens, followed by our Pearl lens and then our largest being our Prism lens. The different sizes of lenses give us and our customers design flexibility when creating headset systems. There is a trade-off between the lens size and the size of the perceived image to the viewer. For example, a Pearl lens will provide the viewer with an image approximately equivalent to what the viewer would see looking at a smart phone, whereas a Prism lens provides the viewer with an image approximately equivalent to what the viewer would see looking at a tablet. A Pearl lens is smaller than a Prism lens, however, it may enable a more fashionable design. Therefore a customer designing a consumer-oriented product may choose a Pearl lens but a customer designing an enterprise-oriented product might choose a Prism lens. We use third parties to manufacture these lenses. The Whisper Chip is designed to enhance the performance of existing audio systems and speech recognition engines by allowing the speaker’s voice to be clearly “heard” by the listener, whether the “listener” is a person or a machine. The Whisper chip incorporates our Voice Extraction™ Filter (VEF). VEF is a patented approach to singulating the voice signal without distorting it. The Whisper Chip is an all-digital solution that runs at 16MHz, consumes less than 12mW of power and replaces the CODEC so no ADC or DAC is needed. The Whisper Chip is 4 x 4 mm in size and accepts up to four (4) digital microphone inputs. We use third parties to manufacture the Whisper Chip.

Headset Systems

Our headset systems include:

- Consumer-oriented headsets which resemble typical eyeglasses but include voice and audio capabilities allowing the user to communicate with other users and a Pupil display module;
- Augmented reality health and fitness sunglasses, called Solos™, that have voice and audio capabilities, a Pupil display module which overlays situational information on the glasses, our Whisper Chip; and an
- Industrial headset reference design, 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.
- Professional virtual reality systems that allow customers to visualize and interact with simulated 3D environments. Our headsets receive or transmit data from or to the internet by interfacing with a smartphone or similar device via WiFi or Bluetooth. They can also receive information from devices in close proximity using ANT+. The display module or optical pod allows users to view the information such as WEB data, emails, text messages, maps or biometric data (heart rate), situational data (speed, distance traveled, Watts produced) at a “normal” viewing size because of our specialized optics. Our industrial headset provides the capability of viewing technical diagrams, by enabling the user to zoom in to see finer details or zoom out to see a larger perspective. Our industrial headset is equipped with a camera to enable a picture to be taken, video to be streamed or face-to-face communication to occur. The camera enables users to send 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. Our headset reference designs utilize operating system software we developed. Our professional virtual reality systems allow our customers to develop high-fidelity training and simulation applications.

We have three sources of revenues: product revenues, which are our primary source of revenues, research and development (R&D) revenues primarily from development contracts with agencies or prime contractors of the U.S. government and commercial enterprises and license revenues from our reference designs. To date our license revenues have been de minimis. For the three months ended April 1, 2017, R&D revenues were \$0.4 million, or 10.2% of total revenues. This contrasted with \$0.1 million, or 2.3% of total revenues for the corresponding period in 2016.

Results of Operations

The three month periods ended April 1, 2017 and March 26, 2016 are referred to as 2017 and 2016, respectively. The year ended period December 31, 2016 is referred to as fiscal year 2016.

Revenues. For 2017 and 2016, our revenues, which include component sales and amounts earned from research and development contracts, were as follows (in millions):

| Display Revenues by Application | Three Months Ended | |
|---------------------------------|-----------------------|-------------------|
| | April 1, 2017 | March 26, 2016 |
| Wearable | \$0.7 | \$ 2.6 |
| Military | 0.9 | 1.5 |
| Industrial | 1.9 | 1.1 |
| Consumer | 0.5 | 0.8 |
| Research & Development | 0.4 | 0.1 |
| Total | \$4.4 | \$ 6.1 |

Wearable Applications primarily represents sales of our components for products that are worn on the body for other than Military Applications. The decrease in Wearable Applications revenues in 2017 as compared to 2016 is primarily because of a decrease in sales to customers who use our products for drone headset applications and a health and fitness application. Sales of our products to customers that use our products for Wearable Applications is a critical part of our strategy to increase revenues and return to profitability and positive cash flow. Our success in selling our products for Wearable Applications will depend on the demand for our customers' new products, which we are unable to predict. Sales of our products for Military Applications decreased in 2017 as compared to 2016 because of a decrease in demand from several small programs. We are in qualification for the US military's Family of Weapon Sights (FWS) program. The FWS program has several sub-programs and we are currently proposing to be a supplier for the FWS-I and FWS-C programs. As part of the qualification process we are receiving low volume orders for the FWS-I program. Industrial Applications represents customers who purchase our display products for use in headsets used for applications in public safety and equipment such as 3D metrology and training and simulation. Sales of our products for use in 3D metrology applications in 2017 have increased as compared to 2016. In addition in the first quarter of 2017, we acquired a company that produces virtual reality systems for professional 3D applications. Sales of the acquired company were approximately \$400,000 in the first quarter of 2017.

International sales represented 51% and 71% of product revenues for the three months ended April 1, 2017 and March 26, 2016, respectively. Our international sales are primarily denominated in U.S. currency. Consequently, a strengthening of the U.S. dollar could increase the price in local currencies of our products in foreign markets and make our products relatively more expensive than competitors' products that are denominated in local currencies, leading to a reduction in sales or profitability in those foreign markets. In addition, our Korean subsidiary, Kowon, holds U.S. dollars. As a result, our financial position and results of operations are subject to exchange rate fluctuation in transactional and functional currency. We have not taken any protective measures against exchange rate fluctuations, such as purchasing hedging instruments with respect to such fluctuations, because of the historically stable exchange rate between the Japanese yen, Great Britain pound, Korean won and the U.S. dollar.

Cost of Component Revenues.

| | Three Months Ended | |
|---|-----------------------|-------------------|
| | April 1, 2017 | March 26, 2016 |
| Cost of product revenues (in millions): | \$3.1 | \$ 4.7 |
| Cost of product revenues as a % of net product revenues | 79.3 % | 77.7 % |

For the three months ended April 1, 2017, cost of product revenues, which is comprised of materials, labor and manufacturing overhead related to the production of our products, increased as a percentage of revenues in 2017 as compared to 2016 because of under absorbed fixed overhead costs due to lower sales volume and lower productivity. Many of our sales programs are for new products which have unpredictable demand which requires us to use forecasts in determining the number of production employees. If actual demand is less than forecast we will have excess labor costs and lower productivity.

Research and Development. Research and development (R&D) expenses are incurred in support of internal development programs or programs funded by agencies or prime contractors of the U.S. government and commercial partners. R&D revenues associated with funded programs are presented separately in revenue in the statement of operations. Research and development costs include staffing, purchases of materials and laboratory supplies, circuit design costs, fabrication and packaging of display products, and overhead. For the three months ended April 1, 2017 and March 26, 2016, R&D expense was as follows (in millions):

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| | Three Months Ended April 1, March 26, 2017 2016 | |
|--|--|--------|
| Funded | \$0.9 | \$ 0.1 |
| Internal | 3.4 | 3.9 |
| Total research and development expense | \$4.3 | \$ 4.0 |

Funded R&D expense for the three months ended April 1, 2017 increased as compared to the prior year due to an increase in spending for military programs. For the three months ended April 1, 2017, internal R&D costs decreased as compared to the same period in 2016 due to the transition into production or the discontinuation of certain products. We expect to incur significant development costs in fiscal year 2017 to commercialize our Wearable technologies and develop military products.

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

| | Three Months Ended April 1, March 26, 2017 2016 | |
|--|--|--------|
| Selling, general and administration expense (in millions): | \$5.6 | \$ 3.8 |
| Selling, general and administration expense as a % of revenues | 128.7% | 61.5 % |

S,G&A increased for the three months ended April 1, 2017 as compared to the same period in 2016, reflecting a \$0.8 million increase in legal and accounting cost and a \$1.2 million increase in stock-based compensation costs.

Other Income and Expense

| | Three Months Ended April 1, March 26, 2017 2016 | |
|------------------------------|--|-----------|
| Other expense (in millions): | \$(0.4) | \$ (0.3) |

Other income and expense, net, is primarily composed of interest income, foreign currency transaction and remeasurement gains and losses incurred by our Korean and UK-based subsidiaries and other non-operating income items. During the three months ended April 1, 2017, we recorded \$1.2 million of foreign currency losses. During the three months ended March 26, 2016, we recorded \$0.5 million of foreign currency losses. During the three months ended April 1, 2017 we recorded a non-cash \$0.3 million gain on the mark to market of a warrant we received as part of a license of our technology.

In 2016, we discovered an embezzlement at our Korean subsidiary of approximately \$1.6 million which occurred during the period 2011 through 2016. The amount stolen for the three months ended March 26, 2016 was approximately \$0.1 million. During the three months ended April 1, 2017 we recognized approximately \$280,000 received from the family of the embezzler as restitution.

Tax Provision. For the three months ended April 1, 2017, we recorded a tax benefit of \$1,146,000 of which \$62,000 is a decrease in estimated foreign withholding on anticipated future remitted earnings of a foreign subsidiary. In addition as a result of the acquisition of a company we recognized \$1.1 million of net deferred tax liabilities which can offset our net deferred tax assets in future years. We reduced the valuation allowance on our net deferred tax assets in the amount of \$1.1 million and such reduction was recognized as a benefit for income taxes for the three months ended April 1, 2017. For the three months ended March 26, 2016, we recorded a tax provision of \$141,000 for estimated state taxes and an increase in estimated foreign withholding on anticipated future remitted earnings of an international subsidiary

Net Income Attributable to Noncontrolling Interest. As of April 1, 2017, we owned approximately 93% of the equity of Kowon and 80% of the equity of eMDT. Net loss attributable to noncontrolling interest on our consolidated statement of operations represents the portion of the results of operations of our majority owned subsidiaries which is allocated to the shareholders of the equity interests not owned by us. The change in net income attributable to noncontrolling interest is the result of the change in the results of operations of Kowon and eMDT for the three months ended April 1, 2017 and March 26, 2016.

Liquidity and Capital Resources

As of April 1, 2017, we had cash and equivalents and marketable securities of \$67.8 million and working capital of \$60.5 million compared to \$77.2 million and \$70.0 million, respectively, as of December 31, 2016. The change in cash and

equivalents and marketable securities was primarily due to net outflow of cash used in operating activities of \$6.6 million and acquisition of a company for \$3.3 million, offset by cash provided by investing activities of \$12.0 million. Cash and marketable debt securities held in U.S. dollars:

| | |
|--|--------------|
| Domestic | \$47,270,419 |
| Foreign | 9,471,542 |
| Subtotal cash and marketable debt securities | 56,741,961 |
| Cash and marketable debt securities held in other currencies and converted to U.S. dollars | 11,008,609 |
| Total cash and marketable debt securities | \$67,750,570 |

We have no plans to repatriate the cash and marketable debt securities held in our foreign subsidiaries FDD and Kopin Software Ltd. and, as such, we have not recorded any deferred tax liability with respect to such cash. The manufacturing operations at our Korean facility, Kowon, have ceased. Kowon has approximately \$18.6 million of cash and marketable debt securities which we anticipate will eventually be remitted to the U.S. and, accordingly, we have recorded deferred tax liabilities associated with its unremitted earnings.

In December 2016, we entered into an agreement with a Chinese company under which they would acquire 7,589,000 shares of unregistered stock of the Company for approximately USD \$24.7 million. The transaction was completed on April 20, 2017.

In March 2017, we acquired 100% of the outstanding stock of a company for \$3.7 million plus contingent consideration. In March 2017 we paid \$3.3 million and at April 1, 2017 accrued an additional \$0.4 million as part of a working capital adjustment. An additional \$2.0 million can be earned if certain cash flow milestones are met and certain employees remain with the company through March 2020.

We lease facilities located in Westborough, Massachusetts, Reston, Virginia, San Jose, California and Scotts Valley, California under non-cancelable operating leases. The Westborough, Reston, San Jose and Scotts Valley leases expire in 2023, 2018, 2021 and 2018, respectively.

We lease a facility in Dalgety Bay, Scotland which expires in 2019, a facility in Nottingham, United Kingdom, which expires in 2017, an office in Hong Kong which expires in 2018 and an office in Japan which expires in 2017.

We expect to expend between \$2 million and \$3 million on capital expenditures over the next twelve months. We own approximately 93% of Kowon, our Korean subsidiary. The owners of the remaining 7% have expressed a desire to sell their shares to the Company. We are evaluating whether to purchase the shares.

As of April 1, 2017, we had U.S. federal and state tax loss carry-forwards, which may be used to offset U.S. future federal and state taxable income. We also had tax loss carry-forwards generated in our foreign subsidiaries which may be used to offset future foreign taxable income. We may be subject to alternative minimum taxes, foreign taxes and state income taxes depending on our taxable income and sources of taxable income.

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

Seasonality

There has been no seasonal pattern to our sales in fiscal years 2017 and 2016.

Contractual Obligations

The following is a summary of our contractual payment obligations for operating leases as of April 1, 2017:

| Contractual Obligations | Total | Less than 1 year | 1-3 Years | 3-5 years | More than 5 years |
|-----------------------------|-------------|------------------|--------------|-------------|-------------------|
| Operating Lease Obligations | \$5,657,000 | \$ 1,337,000 | \$ 1,983,000 | \$1,674,000 | \$ 663,000 |

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We invest our excess cash in high-quality U.S. government, government-backed (i.e: Fannie Mae, FDIC guaranteed bonds and certificates of deposit) and corporate debt instruments, which bear lower levels of relative risk. We believe that the

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act) were not effective. This conclusion was based on the existence of the material weaknesses in our internal control over financial reporting previously disclosed and discussed below and as more fully discussed in our Annual Report on Form 10-K for the year ended December 31, 2016.

As disclosed in our Annual Report on Form 10-K, Item 9A, for the year ended December 31, 2016, our management concluded that our internal control over financial reporting was not effective at December 31, 2016. We are actively engaged in the implementation of a remediation plan, described below, to ensure that controls contributing to the material weaknesses are designed appropriately and will operate effectively.

Management's Plan to Remediate the Material Weaknesses

Our Korean subsidiary had stopped production in 2013 and was maintained by a small staff, pending sale the facilities, which occurred in June of 2016. The employee responsible for the embezzlement was able in large part to perpetrate the fraud by obtaining the Company's seal and using it to authenticate fraudulent documents. The Company seal was removed from local management's control by December 31, 2016 and now resides with an independent party. Local management must now make requests of our corporate accounting department to execute transactions. Our corporate accounting department coordinates with the independent party to execute any transactions. Our Korean subsidiaries accounting function has been out sourced to an independent third party who reports directly to the corporate accounting department. In addition, enhanced reviews of bank statements, account reconciliations and supporting analysis are being performed by our corporate accounting department.

We expect that our remediation efforts will continue, although the material weaknesses will not be considered remediated until our controls are operational for a period of time, these controls are tested and management concludes that these controls are operating effectively.

Notwithstanding the identified material weakness and management's assessment that internal control over financial reporting was ineffective as of April 1, 2017, management believes that the consolidated financial statements contained in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in

the United States of America.

Changes in Internal Control over Financial Reporting

There were no changes in the our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that was conducted during the quarter ended April 1, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except for our remediation efforts described above.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended December 31, 2016. The risks discussed in our Annual Report on Form 10-K could materially affect our business, financial condition and future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition or operating results.

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

Sale of Unregistered Securities

In December 2016, we entered into an agreement with a Chinese company, Goertek Inc. ("Goertek") pursuant to which Goertek would acquire 7,589,000 shares of unregistered stock of the Company for approximately USD \$24.7 million. The transaction was completed on April 20, 2017. Other than the sale to Goertek we have not sold any securities in the past three years which were not registered under the Securities Act.

Use of Proceeds

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

Item 6. Exhibits

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

*Submitted electronically herewith

**Furnished and not filed herewith

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

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

(3) Filed as an exhibit to Current Report on Form 8-K filed on July 18, 2016 and incorporated herein by reference. Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at April 1, 2017 (Unaudited) and December 31, 2016, (ii) Condensed Consolidated Statements of Operations (Unaudited) for the three months ended April 1, 2017 and March 26, 2016, (iii) Condensed Consolidated Statement of Comprehensive (Loss) Income (Unaudited) for the three months ended April 1, 2017 and March 26, 2016, (iv) Condensed Consolidated Statements of Stockholders' Equity (Unaudited) for the three months ended April 1, 2017, (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended April 1, 2017 and March 26, 2016, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.

SIGNATURES

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

KOPIN CORPORATION
(Registrant)

Date: May 11, 2017 By: /S/ John C.C. Fan
John C.C. Fan
President, Chief Executive Officer and
Chairman of the Board of Directors
(Principal Executive Officer)

Date: May 11, 2017 By: /S/ RICHARD A. SNEIDER
Richard A. Sneider
Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)