

KOPIN CORP
Form 10-K
March 31, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 29, 2007

OR

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

For the transition period to

Commission file number 0-19882

KOPIN CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Edgar Filing: KOPIN CORP - Form 10-K

Delaware
(State or other jurisdiction)

of incorporation or organization)
200 John Hancock Rd., Taunton, MA
(Address of principal executive offices)

04-2833935
(I.R.S. Employer

Identification No.)
02780-1042
(Zip Code)

Registrant's telephone number, including area code: (508) 824-6696
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$.01 per share
(Title of Class)
Name of Each Exchange on Which Registered NASDAQ National Market

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

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

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 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer 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

As of June 30, 2007 (the last business day of the most recent second fiscal quarter) the aggregate market value of outstanding shares of voting stock held by non-affiliates of the registrant was \$310,387,176.

As of March 21, 2008, 71,935,948 shares of the registrant's Common Stock, par value \$.01 per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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 sales to Skyworks Solutions and the US Military will represent a significant portion of our revenues for 2008; our expectation that sales of our CyberDisplay products to customers who use them in camcorder applications will decline; our expectation that KoBrite will incur additional losses in the near term; our belief that in 2008 we will establish an 8-inch CyberDisplay manufacturing line; our belief that our material weakness in our internal controls will continue to exist in our fiscal year 2008; our expectation that a significant market for new wireless communications devices, including personal entertainment systems, will develop; our expectation that our CyberDisplay 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 expectation that sales into the high speed fiber optic switching equipment market will not be significant in fiscal year 2008; our expectation not to pay cash dividends for the foreseeable future and to retain earnings for the development of our businesses; our expectation, based on current negotiations with our customers and certain contractual obligations, that the prices of certain products will decline in fiscal year 2008; our expectation that the sale prices of our commercial displays will decline, but our military product sales will increase, in fiscal year 2008; our expectation that we will expend between \$5.0 and \$9.0 million on capital expenditures over the next twelve months; our expectation that our third quarter would be our strongest sales quarter followed by our second quarter, fourth quarter and first quarter, in that order; our expectation that prices of our HBT transistors and display products sold for consumer electronic applications will decline by approximately 5 to 10 percent during fiscal year 2008, but may decline more depending on final negotiation with our customer; our expectation that our revenues for 2008 will be between \$105 million and \$115 million, our expectation that competition will increase; our belief that our CyberDisplay products are well suited for new applications such as reading e-mail and browsing the Internet using digital wireless devices and other consumer electronics devices; our belief that small form factor displays will be a critical component in the development of advanced wireless communications systems; our belief that 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 CyberDisplay product manufacturing process; our belief that continued introduction of new products in our target markets is essential to our growth; our belief that GAIN HBT transistor wafers provide the performance characterization necessary for the next generation of wireless handsets and optoelectronic components; our belief that the costs of producing gallium arsenide integrated circuits by our customers will continue to exceed the costs associated with the production of competing silicon integrated circuits; 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 available cash resources will support our operations and capital needs for at least the next twelve months; and our belief that the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations, and cash flows should not be material. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate, management's beliefs, and assumptions made by management. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of us. Words such as expects, anticipates, intends, plans, believes, could, seeks, estimates, and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements, whether as a result of new information, future events or otherwise. Factors that could cause or contribute to such differences in outcomes and 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.

Item 1. Business

Introduction

We were incorporated in Delaware in 1984 and are a leading developer and manufacturer of III-V products and miniature flat panel displays. We use our proprietary semiconductor material technology to design, manufacture and market our III-V and display products. Our products enable our customers to develop and market an improved generation of products for applications in wireless and consumer electronic products. In December 2004, we adopted a fiscal year ending on the last Saturday in December by amending our bylaws to change our year end. The fiscal year ended December 31, 2005 includes 53 weeks and the fiscal years ended December 29, 2007 and December 30, 2006 each include 52 weeks. The fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005 are referred to as fiscal years 2007, 2006 and 2005, respectively, herein. Our principal executive offices are located at 200 John Hancock Road, Taunton, Massachusetts. Our telephone number is (508) 824-6696.

We commercially develop and manufacture Gallium Arsenide-based heterojunction bipolar transistor wafers (HBT transistor wafers) and other commercial semiconductor products that use Gallium Nitride and Gallium Arsenide-based substrates. From October of 2000 until December 2004 we were developing light emitting diodes (LEDs) grown on sapphire substrates, which were called CyberLite LEDs. We stopped our internal CyberLite LED development activities in 2005 as discussed below. We collectively refer to our products based on compound semiconductor materials, including our HBT transistor wafers and CyberLite LEDs, as our III-V products because we use elements categorized on the III and V columns of the periodic table of elements to manufacture such products. Our primary III-V product is our HBT transistor wafer. Our HBT transistor wafers are customer-specific arrays of vertically oriented transistors that our customers use primarily to produce high performance integrated circuits for wireless communications products. Sales of our HBT transistor wafers to Skyworks Solutions, Inc (Skyworks Solutions) accounted for approximately 26%, 36% and 32% of our total revenues for fiscal years 2007, 2006 and 2005, respectively. Skyworks Solutions also uses the foundry services of Advanced Wireless Semiconductor Company (AWSC) to process our HBT transistor wafers on their behalf. In 2005 we began selling HBT transistor wafers directly to AWSC for eventual resale by AWSC to Skyworks Solutions. Accordingly, an investor should view our sales to Skyworks Solutions and AWSC in the aggregate for evaluating the importance of Skyworks Solutions as a customer to Kopin. AWSC also purchases HBT transistor wafers from us for the processing and sale to other customers. Sales to AWSC in 2007, 2006 and 2005 were 5%, 13% and 7%, of our 2007, 2006 and 2005 revenues, respectively. In addition to Skyworks Solutions, original equipment manufacturers such as ANADIGICS and Triquint Semiconductor purchase our HBT transistor wafers.

We invested in a joint venture, KoBrite Corp (KoBrite), with a Taiwanese-based light emitting diode (LED) manufacturer, Kopin Taiwan Corporation (a Taiwanese-based III-V manufacturer), and financial investors, in which we agreed to transfer our CyberLite LED technology and production know-how and \$3.0 million of cash for a 23% interest in KoBrite. Subsequent to its formation, KoBrite entered into agreements with us to purchase certain equipment and to have the Company perform research and training activities with KoBrite employees until KoBrite's facilities were constructed and ready to receive the equipment. KoBrite agreed to pay us an estimated net \$5.8 million for the equipment and \$1.7 million for research and training activities and reimbursement of costs incurred in the transfer of the equipment. We discontinued manufacturing CyberLite LEDs as of March 31, 2005. As a result of such discontinued manufacturing operations, we recorded an impairment charge of \$5.3 million in 2004 and \$0.5 million in 2005. In addition, a charge of \$0.3 million was recorded in 2005 for equipment that we transferred to KoBrite but was damaged in-transit and we agreed to reimburse KoBrite for the value of the damaged equipment. We retain the right to market KoBrite's LEDs in the United States and to certain Japanese customers. For fiscal year 2005 our CyberLite LED product sales were \$0.7 million. There were no CyberLite LED sales in 2007 and 2006.

Our CyberDisplay products are miniature, high performance, high resolution display products designed for consumer electronics, military and next generation mobile communications devices. Current applications of our CyberDisplay products include electronic view finders in camcorders and digital cameras, and we believe

that our CyberDisplay products are well suited for new applications such as reading e-mail and browsing the Internet using digital wireless devices and viewing video from other consumer electronics devices such as MP3 or iPod storage devices. Our displays are also used by the United States Government in thermal weapon sights and we are working to incorporate them in night-vision goggle devices. We currently sell our CyberDisplay product to Samsung Electronics Co., Ltd. (Samsung) for use in digital camcorders and Eastman Kodak Company (Kodak), Olympus Corporation (Olympus) and Fuji Corporation (Fuji) for digital still cameras. For fiscal years 2007, 2006 and 2005 Samsung, the military customers, excluding research and development contracts, and JVC accounted for the following percentage of our total revenues (* denotes that the customer's revenues were less than 10% of our total company revenues):

Customer	Percent of Total Revenues		
	2007	2006	2005
Military Customers	16%	16%	11%
Sanyo Electric Co. Ltd.	16%	*	*
Samsung Electronics	*	*	15%
Victor Company of Japan (JVC)	*	*	13%

Industry Overview

III-V Products

Advanced semiconductor materials are used in the manufacture of integrated circuits for high frequency, low power applications. The rapid growth in the wireless communications industry, as well as the increasingly shorter product cycles of wireless products, has fueled demand for these integrated circuits, which are predominantly used in wireless handsets.

In first generation wireless handsets, integrated circuits used in high frequency, low power amplifiers were generally constructed with silicon-based semiconductors. These integrated circuits, while relatively inexpensive to manufacture, were unable to deliver the ever increasing performance demanded by wireless handset manufacturers and their customers. This inability led to the development of gallium arsenide products for use in wireless communications. Gallium arsenide is generally regarded as having better performance characteristics than silicon due, in part, to its inherent physical properties that permit gallium arsenide integrated circuits to operate at much higher frequencies than silicon integrated circuits, or operate at the same frequency with lower power consumption. The reduction in system power requirements is particularly important in portable applications, such as wireless handsets, because it extends battery life.

The high performance characteristics of gallium arsenide have led to an increased use of gallium arsenide based transistors to satisfy the industry's need for even greater performance. These gallium arsenide transistors include gallium arsenide field effect transistors and for second generation wireless handset products our HBT transistor wafer. Second generation wireless communications products use digital signal processing and generally operate at higher cellular frequencies. Air interface standards in these frequency bands have increased in recent years. These standards, which include Global System Mobile, or GSM, Time Division Multiple Access, or TDMA, and Code Division Multiple Access, or CDMA, provide improved capacity, sound quality and capabilities at cellular and wireless frequency bands, but are incompatible with each other and have fragmented the market for equipment. Suppliers of wireless handsets now offer multi-mode and multi-band wireless handsets which are capable of switching from one high frequency band to another to enable consumers to use wireless handsets across various territories and different interface standards. This new generation of products is significantly more complex than the prior generation and requires certain key features, including:

Simpler system design;

Support for higher frequencies;

Lower power consumption;

Improved signal quality; and

Wider range of operating temperatures.

CyberDisplay Products

Small form factor displays are used in the consumer electronics industry in products such as camcorders and digital cameras. We also expect that a significant market for new wireless communications devices, including personal entertainment systems, will develop. In order for this market to develop, advances in wireless communications systems such as greater bandwidth and increased functionality, including real-time wireless data, broadband Internet access and mobile television, will be necessary. In addition, economic models must be developed and implemented which compensate the owners of the media content. We believe small form factor displays will be a critical component in the development of advanced mobile wireless communications systems as these systems must provide high resolution images without compromising the portability of the product.

There are several display technologies currently available. The most commonly used technology in portable applications is based on the traditional liquid crystal display, or LCD, which is now in widespread use in products requiring a solid state monochrome or color display. These displays form an image by either transmitting or blocking light emitted from a source located behind the LCD. The principal LCD technologies are passive and active matrix.

Passive Matrix LCD. These displays are primarily used in calculators, watches, pagers and wireless handsets because of their relatively low cost and low power consumption. Their relatively low image quality, slow response time and limited viewing angle, however, make them inadequate for many demanding applications.

Active Matrix LCD. These displays are used primarily in laptop computers, instrumentation and projection systems. These displays are also being introduced on wireless handsets and storage devices such as Apple's iPods. In contrast to passive matrix LCDs, monochrome active matrix LCDs incorporate a transistor at every pixel location and color active matrix LCDs incorporate three transistors at every pixel location. This arrangement allows each pixel to be turned on and off independently which improves image quality and response time and also provides an improved side-to-side viewing angle of the display. The increased number of transistors required to produce those benefits, however, creates significant drawbacks, particularly in color applications. The high number of transistors used in conventional active matrix LCDs limits achievable pixel density and their relatively high power consumption makes them difficult to use in high information content ultra-portable electronics products.

We believe that the high growth potential for portable communications products can be realized effectively only if these products are available at a reasonable price and are able to clearly present to end users the information they wish to access without compromising the size of the product. These products, as well as future models of digital cameras and other consumer electronics, are well suited for the use of a miniature, low cost display with low power consumption and sharp monochrome or rich, full color high resolution images. To date, display technologies have not fully addressed these needs due to constraints with respect to size, power consumption, resolution, cost or full color capability.

Our Solution

III-V Products

Edgar Filing: KOPIN CORP - Form 10-K

We manufacture our HBT transistor wafers using our proprietary metal organic chemical vapor deposition (MOCVD) semiconductor growth techniques and our Wafer Engineering process. Our Wafer Engineering process significantly reduces the number of defects which naturally occur when different semiconductor materials are combined. By depositing films of atomic-level thickness on gallium arsenide or indium phosphide

wafers, we are able to create HBT transistor wafers that consist of a series of material layers which form a vertical transistor. This transistor structure enables the design of integrated circuits in which individual transistors are vertically arranged.

We believe that the vertical structure of an HBT transistor wafer, as opposed to the horizontal structure of a competing gallium arsenide field effect transistor, offers advantages to an integrated circuit manufacturer:

Smaller Size. We believe integrated circuits fabricated from our HBT transistor wafers can be made smaller than integrated circuits fabricated from gallium arsenide field effect transistors. Smaller size enables more die per wafer, which can increase manufacturing yields and lead to reduced costs.

Faster Circuits. We believe our HBT transistor wafers enable the design of faster integrated circuits than may be designed with gallium arsenide field effect transistors because the effective transistor gate length, or the distance an electron must travel within a transistor, is shorter. The transistor gate length of gallium arsenide field effect transistors is constrained by current optical lithography techniques to approximately 0.13 microns for commercial volumes. We currently manufacture our HBT transistor wafers in commercial volumes with an effective transistor gate length ranging from approximately 0.05 microns to 0.1 microns. We are able to achieve this result because the thickness of the vertical base layer of our HBT transistor wafers determines transistor gate length rather than the limitations of current optical lithography techniques.

We believe our HBT transistor wafers also offer the following additional advantages over gallium arsenide field effect transistors:

Greater Power Efficiency. Efficiency is a measure of power output as a percentage of battery power consumed by the device. We believe our HBT transistor wafers are more efficient and use less power to transmit the same output power than comparable gallium arsenide field effect transistors. Increased efficiency can translate into improved battery life and increased talk time.

Improved Signal Quality. Power amplifiers within wireless handsets are a key determinant of signal quality. We believe that power amplifiers based on our HBT transistor wafers can amplify signals with reduced distortion, providing increased signal quality. Improved signal quality is important for wireless networks that use digital air interface standards such as Time Division Multiple Access, or TDMA, and Code Division Multiple Access, or CDMA.

Less Complexity. Power amplifiers and other integrated circuits based on our HBT transistor wafers run on a single power supply voltage. In contrast, gallium arsenide field effect transistors generally require both a positive and negative power supply, which results in the need to include a negative voltage generator and other additional components or circuitry in the end product. As a result, we believe products using our HBT transistor wafers are easier to design, which can translate into reduced component costs and smaller equipment.

CyberDisplay Products

Our principal CyberDisplay products are miniature high density color or monochrome active matrix LCDs with resolutions which range from approximately 320 x 240 resolution to 1280 x 1024 resolution. In contrast to current passive matrix and active matrix LCD approaches, our 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 then lifted off as a thin film using our proprietary Wafer Engineering technology. The thin film is patterned into an integrated circuit (including the active matrix, driver circuitry and other logic circuits) in an integrated circuit foundry and then transferred to glass using our proprietary Wafer Engineering technology, so that the transferred layer is a fully functional active matrix integrated circuit.

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

Greater miniaturization;

Reduced cost;

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. We previously developed, but did not commercialize, color CyberDisplays products using color sequential technology whereby a backlight composed of three LEDs emit a sequence of red, green and blue light. In color sequential technology, each pixel either blocks or transmits the colored light 180 times per second, which allows the generation of color images without using three separate pixels.

Our CyberDisplay products have the additional advantage of being fabricated using conventional silicon integrated circuit lithography processes. These processes enable the manufacture of miniature active matrix circuits, resulting in comparable or higher resolution displays relative to passive and other active matrix displays that are fabricated on glass. Our production partners, United Microelectronics Corporation, or UMC, and MagnaChip, fabricate integrated circuits for our CyberDisplay products in their foundries in Taiwan and Korea, respectively. 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 and packaged with liquid crystal at our Westborough, Massachusetts facility. The packaged units are then assembled into display panels at our Westborough, Massachusetts facility, our Korean subsidiary, Kowon Technology Co., Ltd. (Kowon), or an Asian packaging company and shipped to customers. This arrangement allows us to benefit from UMC's and MagnaChip's economies of scale and advanced fabrication processes. We expect our CyberDisplay 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.

Strategy

Our objective is to be the leading supplier of advanced semiconductor materials and miniature displays that enable our customers to develop and manufacture differentiated communications, military and consumer electronic devices in high volumes. The critical elements of our strategy include:

Increase the Number of Product Designs That Use Our Components. Our goal is to grow sales of our components by increasing the number and type of products into which they are incorporated. Our product lines are subject to long design lead-times and we work

Edgar Filing: KOPIN CORP - Form 10-K

closely with our customers to help them design and develop cost-effective products based on our III-V and CyberDisplay products. We use an aggressive pricing strategy as an inducement for manufacturers of consumer electronics and wireless communications products to integrate our products into their products.

Reduce Production Costs. We intend to reduce our per unit production costs primarily through increasing manufacturing yield, lowering fixed costs per unit through increased sales volume, and increasing productivity and efficiency. We plan to increase productivity and efficiency by migrating from

current CyberDisplay production line which uses 6 inch diameter wafers to a production line which uses 8 inch wafers and installing MOCVD reactors which can produce up to twelve 4 inch HBT transistor wafers as compared to our current reactors which can produce six 4 inch HBT transistor wafers at a time.

Maintain Our Technological Leadership. We believe our ability to develop innovative products based on our extensive materials science expertise enhances our opportunity to grow within our targeted markets. By continuing to invest in research and development, we are able to add to our expertise in the design of HBT transistor wafers, and innovative, high-resolution, miniature flat panel displays. We intend to continue to focus our development efforts on our proprietary HBT transistor wafers and miniature displays.

Leverage Integrated Circuit and Display Technologies and Infrastructure. We will continue to leverage our use of standard integrated circuit fabrication and LCD packaging technologies to achieve greater production capacity and to reduce capital investment and process development costs. Our use of these technologies allows us to engage third party manufacturers for certain portions of the fabrication of our CyberDisplay products and to take advantage of new technologies, cost-efficiencies and increased production capabilities of these third party manufacturers. We believe 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 CyberDisplay product manufacturing process.

Markets and Customers

III-V Products

We develop and manufacture customer and application specific HBT transistor wafers for advanced integrated circuit applications. We believe we are one of the world's leading suppliers of HBT transistor wafers and currently support volume production of four-inch and six-inch HBT transistor wafers. Our primary HBT transistor wafer product is based on an aluminum gallium arsenide vertical layer structure. We also offer customers HBT transistor wafers based on an indium gallium phosphide vertical layer structure. We vary our manufacturing process to create customized HBT transistor wafer products for customers. For fiscal years 2007, 2006 and 2005, sales of III-V products accounted for 45%, 62% and 47% of our revenues, respectively.

Using our HBT transistor wafers, our customers have developed gallium arsenide power amplifiers for wireless handsets. Our HBT transistor wafers are used in Code Division Multiple Access, Global System Mobile and Time Division Multiple Access power amplifiers, and third generation (3G) wireless handset standards. In those countries where one uniform standard has not yet been adopted, the diversity of standards requires equipment capable of operating in multiple modes and bands. This equipment is likely to require higher performance semiconductor technology such as our HBT transistor wafers.

In addition to wireless handset power amplifiers, our HBT transistor wafers are also being used in the fabrication of power amplifiers for devices which communicate using wireless fidelity or WiFi integrated circuits. Our HBT transistor wafers are also used in high-speed fiber optic switching equipment used in broadband Internet data transmission wireless local area network chipsets (WLAN) and high speed instrumentation. Since 2001, there has been a significant decline in sales of our III-V products into the high speed fiber optic switching equipment market. Accordingly, we do not expect sales into this market will be significant in fiscal year 2008.

We design our HBT transistor wafers in collaboration with our customers' engineering teams in order to create customized products that meet their specific application needs. Once our HBT transistor wafers have been designed in a customer's product, we believe it would be costly for that customer to switch to an alternate supplier. Our largest customer for our HBT transistor wafers is Skyworks Solutions. Skyworks Solutions also uses the foundry services of Advanced Wireless Semiconductor Company (AWSC) to process our HBT transistor wafers on their behalf. In 2005, we began selling HBT transistor wafers directly to AWSC for eventual resale by AWSC to Skyworks Solutions. AWSC also purchases HBT transistor wafers from us for the processing

and sale to other customers. Other customers of our gallium arsenide products include ANADIGICS and Triquint Semiconductor. For fiscal years 2007, 2006 and 2005, sales of gallium arsenide products to Skyworks Solutions accounted for approximately 26%, 36%, and 32% of our total revenues, respectively. Sales to AWSC in 2007, 2006 and 2005 were 5%, 13% and 7% of our 2007, 2006 and 2005 revenues, respectively. We believe an investor should view our sales to Skyworks Solutions and AWSC in the aggregate for evaluating the importance of Skyworks Solutions as a customer to Kopin. We have entered into a purchase and supply agreement with Skyworks Solutions, which has a scheduled termination date of July 2008, excluding the agreement's last buy option. Accordingly, we anticipate that sales of our HBT transistor wafers to Skyworks Solutions will continue to represent a significant portion of our revenues for the near future.

CyberDisplay Products

We currently sell our CyberDisplay products to customers as a single component; a unit which includes a lens and backlight; or as a complete module, which includes the display, lens, backlight and electronics which are assembled in a plastic housing. We refer to our complete module which has two displays as a binocular display module or BDM. Eyewear is the term used by the Company to describe a device which is worn in a similar fashion as eye glasses to view images. Our customers either buy individual displays or a BDM from us to create an Eyewear product. We provide our CyberDisplay products to Samsung, Olympus, Fuji and Kodak for use in digital camcorders and cameras. We also sell CyberDisplay products to the U.S. Military and certain foreign countries. In addition, we are working with other customers to develop additional and new applications for our CyberDisplay products.

In order for our CyberDisplay products to function properly in their intended applications, integrated circuit chip sets generally are required. Several companies have designed integrated circuit chip sets to work with our CyberDisplay products.

For fiscal year 2005, sales to Samsung, as a percentage of total revenues, were 15% and less than 10% for fiscal years 2007 and 2006. For fiscal years 2007, 2006 and 2005, sales to military customers, excluding research and development contracts, as a percentage of total revenue, were 16%, 16% and 11%, respectively. For fiscal year 2005, sales to JVC, as a percentage of total revenue, were 13%.

For fiscal years 2007, 2006 and 2005, research and development revenues, primarily from multiple contracts with various U.S. governmental agencies, accounted for approximately 4%, 7% and 6%, respectively, of our total revenues.

Sales and Marketing

We principally sell our HBT transistor wafer products directly to integrated circuit manufacturers in the United States and Asia. We sell our consumer electronic CyberDisplay products both directly and through distributors to original equipment manufacturers.

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.

Edgar Filing: KOPIN CORP - Form 10-K

Our design and engineering staff is actively involved with a customer during all phases of prototype design and production by providing engineering data, up-to-date product application notes, regular follow-up and technical assistance. In most cases, our technical staff works with each customer in the development stage to identify potential improvements to the design of the customer's product in parallel with the customer's effort. We

have established a prototype product design group in Scotts Valley, California to assist our CyberDisplay customers with incorporating our products into their products and to reduce the time required to bring end products to the marketplace. This group is intended to assist customers in accelerating their design process, achieving cost-effective and manufacturable designs, and ensuring a smooth transition into high volume production. This group is also actively involved with research and development contracts for military applications.

Product Development

We believe that continued introduction of new products in our target markets is essential to our growth. 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 fiscal years 2007, 2006 and 2005 we incurred total research and development expenses of \$11.5 million, \$10.2 million and \$12.3 million, respectively. Research and development expenses, which primarily related to our internal development programs for new HBT and CyberDisplay products and development of the processes to manufacture CyberDisplay products using 8 inch wafers, were \$8.3 million, \$5.3 million and \$5.8 million, respectively, for fiscal years 2007, 2006 and 2005.

III-V Products

We intend to continue developing HBT transistor wafers and other gallium arsenide products for advanced integrated circuit applications from other compound materials. We are working with current and potential customers in the development of the next generation of HBT transistor wafers, which will be based on Gallium Arsenide Indium Nitride (GAIN). We believe GAIN-HBT[®] transistor wafers will provide the performance necessary for the next generation of wireless handsets and optoelectronic components. We are also developing GaN (Gallium Nitride) high electron mobility transistor wafers.

In connection with the transfer of our CyberLite LED know-how into the KoBrite joint venture we have discontinued additional CyberLite LED development as of March 31, 2005.

CyberDisplay Products

Our product development efforts are focused towards continually enhancing the features, functions and manufacturability of our CyberDisplay products. A principal focus of this effort is the improvement of manufacturing processes for very small active matrix pixels, which we will use in succeeding generations of our CyberDisplay products. The pixel size of our current CyberDisplay products ranges from 12 to 15 microns and we believe that we will be able to achieve a pixel size of less than 10 microns in commercial production. This pixel size is in contrast to a pixel size of approximately 100 microns in a typical laptop computer display. The resolutions of our current commercially available CyberDisplay products are 521 x 218 (dot), 800 x 225 (dot), 200 x 225 (pixel), 320 x 240 (pixel), 640 x 480 (pixel), 854 x 480 (pixel), 800 x 600 (pixel) and 1,280 x 1,024 (pixel). In addition, we have demonstrated 2,560 x 2,048 resolution CyberDisplay products in a 1.5 inch diagonal display. We are also working on further decreasing the already low power consumption of our CyberDisplay products. Additional display development efforts include expanding the resolutions offered, transitioning from our six inch CyberDisplay production line to an eight inch line, increasing the quantity of CyberDisplay's active matrix pixel arrays processed on each wafer by further reducing the display size, increasing the light throughput of our pixels and increasing manufacturing yields.

Funded Research and Development

Edgar Filing: KOPIN CORP - Form 10-K

We have entered into various development contracts with agencies of the U.S. government. These contracts help support the continued development of our core technologies. We intend to continue to pursue other U.S. government development contracts for applications that relate to our commercial product applications. Our contracts with U.S. government agencies contain certain milestones relating to technology development and may be terminated by the government agencies prior to completion of funding. Our policy is to retain our proprietary

rights with respect to the principal commercial applications of our technology. To the extent technology development has been funded by a U.S. federal agency, under applicable U.S. federal laws the federal agency has the right to obtain a non-exclusive, non-transferable, irrevocable, fully paid license to practice or have practiced this technology for governmental use. Revenues attributable to research and development contracts for fiscal years 2007, 2006 and 2005 totaled \$4.0 million, \$5.2 million and \$5.0 million, respectively.

Competition

III-V Products

With respect to our HBT transistor wafers, we presently compete with several companies, including IQE, V-PEC, and Hitachi Cable, as well as integrated circuit manufacturers with in-house transistor growth capabilities, such as RF Micro Devices and Fujitsu. In the gallium arsenide HBT transistor wafer market, pricing competition is intense as a result of significant manufacturing overcapacity. The production of gallium arsenide integrated circuits has been and continues to be more costly than the production of silicon integrated circuits. Although we have reduced production costs of our HBT transistor wafers by achieving higher volumes and reducing raw material costs, we cannot be certain we will be able to continue to decrease production costs. In addition, we believe the costs of producing gallium arsenide integrated circuits by our customers will continue to exceed the costs associated with the production of competing silicon integrated circuits. As a result, we must target markets where these higher costs are justified by their superior performance.

CyberDisplay Products

The display market is highly competitive and is currently dominated by large Asian-based electronics companies including Sharp, Hitachi, Seiko, Toshiba, Sony, NEC and Sanyo. 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 CyberDisplay 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. Particularly significant is the consumer's willingness to use a near eye display device, a display viewed in a similar fashion as using a set of binoculars, as opposed to a direct view display which may be viewed from a distance of several inches to several feet. We cannot be certain that we will be able to compete against these companies and technologies or that the consumer will accept the use of such eyewear in general or our form factor specifically.

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

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 eighteen months after their earliest claim to priority and since publication of discoveries in the scientific and patent literature lags behind actual discoveries, we cannot be certain that we were the first to conceive of inventions covered by pending patent applications or the first to file patent applications on such inventions. We cannot be certain that our pending patent applications or those of our licensors will result in issued patents or that any issued patents will afford protection against a competitor. In addition, we cannot be certain that others will not obtain patents that we would need to license, circumvent or cease manufacturing and sales of products covered by these patents, nor can we be sure that licenses, if needed, would be available to us on favorable terms, if at all.

We cannot be certain that foreign intellectual property laws will protect our intellectual property rights or that others will not independently develop similar products, duplicate our products or design around any patents issued 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 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.

Investments in Related Businesses

Since 1998, we have made investments totaling \$4.3 million in Kowon Technology Co. LTD (Kowon), a manufacturer of optoelectronic products located in South Korea, and have accumulated an ownership interest in Kowon of 78%. We consolidate the financial statements of Kowon. Kowon's revenues are principally denominated in U.S. dollars and its local expenses are principally denominated in South Korean won. In addition, Kowon holds U.S. dollars to pay certain expenses including purchases from Kopin. Accordingly, Kowon's operations are subject to exchange rate fluctuations. Kowon is an integral part of our CyberDisplay assembly process, performing most of the backend packaging processes to complete the display.

As of December 29, 2007 we held approximately 200,000 shares of Micrel Incorporated (Micrel) with a fair market value of \$1.7 million. We recorded in the consolidated statement of operation an other-than-temporary impairment on the Micrel stock of \$0.1 million for the fiscal year 2007 and a gain on the sale of Micrel stock of approximately \$1.2 million in the fiscal year ended 2006.

We have a 40% interest in Kopin Taiwan Corporation (KTC), a Taiwan-based company. We account for our percent ownership interest in the operating results of KTC using the equity method. We have manufactured products for KTC to sell to its customers and KTC manufactures product for us to sell to our customers. In addition, we provide technical services and sell raw substrates to KTC. For fiscal years 2007, 2006 and 2005 we had product sales of approximately \$0, \$0 and \$0.3 million, respectively, to KTC. For fiscal years 2007, 2006 and 2005 we had purchases of approximately \$4.5 million, \$1.8 million and \$2.8 million, respectively, from KTC. As a result of our recording our proportional share of KTC's losses our carrying value of this investment since December 25, 2004 has been \$0. Dr. Hsieh, one of our Directors, is chairman of KTC. Dr. Hsieh owns approximately 1% of the outstanding common stock of KTC. KTC was also an investor in KoBrite and acquired an approximate 15% interest in KoBrite.

Since 2002, we have made investments in preferred stock totaling \$5.4 million in Kenet, Inc. (Kenet). Our equity ownership percentage of Kenet on a fully diluted basis is approximately 18% and we account for this investment on the cost basis. In the fiscal year ended December 30, 2006, we invested an additional approximate \$2.5 million in Kenet to retain our proportional interest in Kenet. On January 30, 2008 Kopin and three other principle investors entered into a loan agreement with Kenet whereby each of the investors committed to loan Kenet up to \$1.0 million each through May 28, 2008. The loan agreement provides for interest at the rate of ten percent per annum and provides for the issuance of warrants to purchase Kenet's common stock. On January 30, 2008 Kenet borrowed \$1.2 million under the loan agreement of which \$0.3 million came from us. We have also been notified that Kenet anticipates drawing down an additional \$1.6 million under the loan agreement of which \$0.4 million would be from us. Our Chief Executive Officer is a founder and board member of Kenet and owns approximately 2% of Kenet. Certain of our directors and an officer have also invested in Kenet and their ownership ranges from 0.1% to 1.0%. None of our officers or directors are part of the loan agreement. We periodically review this investment for impairment. No impairment was deemed necessary on December 29, 2007 based on current projections.

In 2005, we contributed our CyberLite LED technology and production know-how and \$3.0 million to a joint venture, KoBrite. For our contribution, we received a 23% interest in KoBrite. KoBrite was established under the laws of Mauritius and constructed manufacturing operations in China. Subsequent to its establishment, KoBrite entered into an agreement to pay us an estimated net \$5.8 million for certain equipment and \$1.7 million for the performance of research and training activities until such equipment was transferred to KoBrite. In the fourth quarter of 2005, certain equipment, which was to be transferred to KoBrite from Kopin, was damaged in transit and we recorded a charge of \$0.3 million to reimburse KoBrite for the damaged equipment. We are accounting for our ownership interest in KoBrite using the equity method. In the fiscal year 2006, we invested an additional approximate \$2.0 million in KoBrite to retain our approximate proportional interest in a KoBrite equity offering.

We may from time to time make further equity investments in these and other companies engaged in certain aspects of the display and electronics industries as part of our business strategy. These investments may not provide us with any financial return or other benefit and any losses by these companies or associated losses in our investments may negatively impact our operating results. Certain of our officers and directors have invested in some of the companies we have invested in.

Employees

As of December 29, 2007, our consolidated business employed 359 full-time and 4 part-time individuals. Of these, 14 hold Ph.D. degrees in Material Science, Electrical Engineering or Physics. Our management and professional employees have significant prior experience in semiconductor materials, device transistor and display processing, manufacturing and other related technologies. None of our employees are covered by a collective bargaining agreement. We consider relations with our employees to be good.

Web Availability

We make available free of charge or through our website, www.kopin.com, our annual reports on Form 10-K and other reports required under the Securities and Exchange Act of 1934, as amended, as well as certain of our corporate governance policies, including the charters for the Board of Directors audit, compensation and nominating and corporate governance committees and its code of ethics, corporate governance guidelines and whistleblower policy. We will provide to any person without charge, upon request, a copy of any of the foregoing materials. Any such request must be made in writing to us, c/o Investor Relations, Kopin Corporation, 200 John Hancock Road, Taunton, MA 02780.

Item 1A. Risk Factors

The matters relating to the investigation by the Special Committee of the Board of Directors and the restatement of our consolidated financial statements may result in additional litigation and governmental enforcement action. On November 1, 2006, in response to a derivative lawsuit filed against us we commenced a voluntary review of our historical practices in granting stock options and our Board of Directors appointed a special committee of independent directors (the Special Committee) to conduct this review. On May 3, 2007, the Special Committee presented the findings of its stock option investigation to our Board of Directors and proposed various remedial measures. The Special Committee's review indicated that our financial statements for the period 1995 through July 1, 2006 should not be relied upon and the Company would need to restate its financial statements for fiscal 1995 through July 1, 2006 and the related interim periods. The Board of Directors accepted all of the findings of the Special Committee and has adopted all of the remedial measures proposed. As a result of the Special Committee's investigation, as well as our internal review of our historical financial statements, we have recorded additional stock-based compensation expense for numerous stock-based awards made from 1995 through July 1, 2006. We restated our consolidated financial statements in our Annual Report on Form 10-K for these periods to correctly account for stock-based awards for which the Special Committee or management determined that the measurement date for accounting purposes was different from the stated grant date.

The internal review, the independent investigation, and related activities have required us to incur substantial expenses for legal, accounting, tax and other professional services, and have diverted management's attention from our business.

Our past stock option granting practices and the restatement of prior financial statements have exposed us to greater risks associated with litigation, regulatory proceedings and government enforcement actions. As described in Item 3, Legal Proceedings, two derivative lawsuits were filed in state courts against certain of our directors and certain of our current and former executive officers pertaining to allegations relating to stock-based awards. We may become the subject of, or otherwise be required to incur legal fees and costs in connection with,

additional private litigation, regulatory proceedings, or government enforcement actions. No assurance can be given regarding the outcomes from such activities. The resolution of these matters will be time consuming, expensive, and will distract management from the conduct of our business. Our available directors' and officers' liability insurance may not be sufficient to cover our legal expenses or those of persons we are obligated to indemnify. Furthermore, if we are subject to adverse findings in litigation, regulatory proceedings or government enforcement actions, we could be required to pay damages or penalties or have other remedies imposed, which could harm our business, financial condition, results of operations and cash flows. Furthermore, the restatements of our financial results, the derivative litigation, and any negative outcome that may occur from the investigation, could impact our relationships with customers and our ability to generate revenue.

Our common stock may be delisted from the NASDAQ Global Market and transferred to the National Quotation Service Bureau (the Pink Sheets), which may, among other things, reduce the price of our common stock and the levels of liquidity available to our stockholders. As a result of our Special Committee Investigation commencing in November 2006 we failed to timely file our Form 10-Q for the three month period ended September 30, 2006, in March 2007 we failed to timely file our Form 10-K for the year ended December 30, 2006, and in May 2007, August 2007, and November 2007 we failed to timely file our Forms 10-Q for the three month periods ended March 31, 2007, June 30, 2007, and September 29, 2007 respectively.

Although we have now filed our Form 10-K for the year ended December 30, 2006, our Forms 10-Q for the quarters ended September 30, 2006, March 31, 2007, June 30, 2007, and September 29, 2007, if the SEC disagrees with the manner in which we have accounted for and reported, or not reported, the financial impact of past stock-based awards, there could be further delays in filing subsequent SEC reports that might result in the delisting of our common stock from the NASDAQ Stock Market.

Failure to achieve and maintain effective internal controls could adversely affect our ability to report our financial condition and results of operations accurately or on a timely basis. As a result, current and potential stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our stock. As required by Section 404 of the Sarbanes-Oxley Act of 2002, our management is required to periodically evaluate the design and effectiveness of our disclosure controls and procedures. Our management identified a material weakness in our application of generally accepted accounting standards, which continued through December 29, 2007. In addition, we must document and test our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires our management to annually assess the effectiveness of our internal control over financial reporting. As a result of the material weakness described above, our disclosure controls and procedures were not effective as of December 29, 2007, which could result in a material misstatement in our annual and interim financial statements. Any failure to implement or difficulties experienced in implementing improved controls or any failure to maintain existing effective controls could have a material adverse effect on our business, operating results and stock price. For a more detailed discussion of our disclosure controls and procedures, see Item 9A of this Annual Report on Form 10-K.

We have experienced a history of losses and have a significant accumulated deficit. Since inception, we have incurred significant net operating losses. As of December 29, 2007 we had an accumulated deficit of \$160.3 million. While we did generate income from operations in 2005, there can be no assurance that we will achieve profitability in the future.

Our revenue and cash flow could be negatively affected by the loss of any of the few customers who account for a substantial portion of our revenues. A few customers account for a substantial portion of our revenues. In addition sales of our CyberDisplay products for military applications is a significant factor in our future growth and profitability. The table below indicates what the percentages of our total revenues were from a particular customer and sales to military applications in a given year. The symbol * indicates that sales to that particular customer for the given year were below 10 percent of our total revenues.

Customer	Sales as a Percent of Total Revenue		
	2007	2006	2005
Skyworks Solutions, Inc (A).	26%	36%	32%
Advanced Wireless Semiconductor Company	5	13	7
Military Customers	16	16	11
United States Government Funded Research and Development Contracts	4	7	6
Sanyo Electric Co. Ltd.-	16	*	*
Samsung Electronics	*	*	15
Victor Company of Japan (JVC)	*	*	13

- (A) In addition to its internal capacity Skyworks Solution, Inc (Skyworks) also uses Advanced Wireless Semiconductor Company (AWSC) to perform processing. We sell our HBT wafers directly to AWSC for use in Skyworks products as well as other customers. If we assume all of the HBT products we sold to AWSC were for Skyworks use the combined sales to Skyworks and AWSC would be 31%, 49% and 39% of our revenues for the years ended 2007, 2006 and 2005, respectively.

We anticipate that sales to Skyworks Solutions and military customers will continue to represent a significant portion of our revenues for 2008. We believe that historically we have provided Skyworks Solutions with the vast majority of its HBT transistor wafers. A significant reduction or delay in orders from any of our significant customers, particularly Skyworks Solutions or military customers in the aggregate, would materially reduce our revenue and cash flow and adversely affect our ability to achieve or maintain profitability in the future. Our ability to generate cash flow and achieve profitability in 2008 will be dependent on developing new customers, increasing our market share of customers who use our CyberDisplay products for digital still camera applications and finding new applications for our CyberDisplay products, particularly eyewear devices. We have increased sales of CyberDisplay products for military applications in the year ended December 29, 2007 from historical levels. Such sales are to government contractors for the United States military. The amount and timing of such orders is dependent upon the United States military procurement processes, the government contractor's ability to successfully manage the program, and our ability to deliver more sophisticated CyberDisplay products.

We may not be able to reduce the cost of raw materials from our vendors. A critical part of our business strategy is to increase our sales and use the purchasing power obtained from these sales to obtain reduced raw material and component pricing from our vendors. In addition part of our purchasing strategy is to find multiple vendors of our needed raw materials in order to create competition for lowering raw material and component prices. If we are unable to execute our sales growth strategy or find multiple vendors of the same raw materials and components we may be unable to execute our purchasing strategy and our products may not be cost competitive with our competitors' products. In addition, we may be able to execute our sales strategy but still be unable to reduce our raw material costs. If we are unable to reduce our raw material cost we may not be able to achieve profitability.

We may be unable to increase revenues from CyberDisplay products if new products and applications are not developed. CyberDisplay revenues for the fiscal years 2007, 2006 and 2005 were \$54.6 million, \$27.2 million and \$47.6 million, respectively. The increase in 2007 CyberDisplay revenues over 2006 has resulted primarily from a significant increase in sales of our CyberDisplay product to customers for use in digital still

cameras and to a lesser extent from an increase in sales of our displays for the military applications. We believe that our success in penetrating these and other markets, particularly military thermal weapon sights and night vision goggles, will significantly impact our ability to increase sales of CyberDisplays. In addition, our military products have a higher gross margin than our consumer display products and our success in increasing sales of military products are expected to significantly impact our ability to achieve or maintain profitability. Discussions with our commercial customers indicate that our competition continue to dramatically reduce their prices and that some of our competitors are offering lower prices than us. We believe the average sales price of our displays to consumer product customers will have to decline in 2008 if we are to remain competitive in the market place. We believe the average sales price of our displays products sold for consumer electronic applications will decrease in the range of 5% to 10% during the fiscal year 2008. Accordingly, if we are unable to enter into new markets, particularly eyewear, or maintain or expand existing market share in the military and digital camera application markets, revenues from CyberDisplay products will decline, which may impact our ability to achieve or maintain profitability in the future.

Accordingly, if we are unable to successfully sell our display products to digital still cameras, eyewear, and military product makers, we may be unable to grow CyberDisplay product revenues and our ability to achieve or maintain profitability will be adversely affected.

The eyewear market segment may not develop or may take longer to develop than we anticipate. Eyewear is the term used by the Company to describe a device which is worn in a similar fashion as eye glasses and contains one or two CyberDisplay displays for the viewing of video images. The source of these video images may be storage devices such as video iPods, DVD players or digital multimedia broadcasting (DMB) tuners. Currently the consumer may view the image through a direct view LCD display which may range in size from one to four inches diagonal. We believe that the consumer will find this experience unsatisfactory and we believe eyewear will be a preferred solution. We sell, to commercial eyewear manufacturers, individual components such as the display, backlight and integrated circuits, or a binocular display module (BDM), which contains the various components combined into one unit or, we sell a complete eyewear solution which contains the BDM and audio elements combined in a ready to use product. The eyewear manufacturing companies which are currently buying our displays for eyewear products tend to be small with limited financial resources and in-house engineering expertise. We believe that eyewear is a critical product for the long term revenue and cash flow growth of the CyberDisplay product line. If the eyewear market does not develop or we are unable to create and manufacture products which meet the needs of the eyewear market we may be unable to grow CyberDisplay product revenues and our ability to achieve or maintain profitability will be adversely affected.

We may not be able to increase our military production capacity. A critical part of our business strategy is to expand our military display production capacity and to implement a new manufacturing line which can utilize 8 inch wafers for our display production. The conversion of our existing 6 inch line to 8-inch will require the investment in new equipment and the redesign of our existing display products. It may also require the re-qualification of our existing display products with our customers. If we are unable to execute our military product display production facility plan, including the implementation of an 8 inch production line, or we can only manufacture and ship our CyberDisplay products in limited quantities, our revenues from CyberDisplay products may not grow, which may impact our ability to achieve or maintain profitability in the future.

Our ability to offer and manufacture higher level CyberDisplay assemblies and modules will impact our ability to increase revenues and achieve or maintain profitability. An important factor in our ability to expand into new military markets will be our ability to design and manufacture higher-level assemblies (HLAs). These HLAs typically consist of one or two CyberDisplay products, a backlight, lens and housing. Some HLAs also include a set of display driver electronics or a display driver chip. They are similar to our commercial binocular display modules, referred to as BDM products, but are designed to operate in the extreme conditions of combat. Our goal is to deliver an integrated HLA to our customer which eases integration into their products. These products require more complex integration of a greater variety of components than we currently use for our existing display products. They will require us to invest in additional engineering, manufacturing and test capability. Accordingly, if we are unable

to develop and market these new display products or if we are unable to manufacture them in a cost-effective manner, our revenues may not grow and we may not be able to achieve or maintain profitability.

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

Our CyberDisplay products may not be widely accepted by the market. Our success will in large part depend on the widespread adoption of the viewing format of our CyberDisplay products in multiple applications. Our success also depends upon the widespread consumer acceptance of our customers products. CyberDisplay products work best when used close to the eye, which may not be acceptable to consumers. Potential customers may be reluctant to adopt our CyberDisplay products because of concerns surrounding perceived risks relating to:

The introduction of our display technology generally;

Consumer acceptance of our CyberDisplay products; and

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

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

Our ability to manufacture and distribute our CyberDisplay products would be severely limited if the third parties that we rely on to manufacture integrated circuits for our CyberDisplay products fail to provide those services. We depend on a Taiwanese company and a Korean company for the fabrication of integrated circuits for our CyberDisplay products. We have no long-term contracts with either of these two companies. These two companies use different methods to manufacture the integrated circuits and a shortage at one company cannot necessarily be supplied by the other company. If either company were to terminate its arrangement with us or become unable to provide the required capacity and quality on a timely basis, we would be able to manufacture and ship our CyberDisplay products only in limited quantities until replacement foundry services could be obtained. Furthermore, we cannot assure investors that we would be able to establish alternative manufacturing and packaging relationships on acceptable terms.

Our reliance on these foundries involves certain risks, including:

Lack of control over production capacity and delivery schedules;

Edgar Filing: KOPIN CORP - Form 10-K

Limited control over quality assurance, manufacturing yields and production costs;

The risks associated with international commerce, including unexpected changes in legal and regulatory requirements, changes in tariffs and trade policies and political and economic instability; and

Natural disasters such as earthquakes, tsunamis, mudslides, drought, hurricanes and tornadoes.

One of the foundries and several other third parties with which we do business are located in Taiwan. Due to natural disasters such as earthquakes and typhoons that have occasionally occurred in Taiwan, many Taiwanese companies, including the Taiwanese foundry we use, have experienced related business interruptions. Our business could suffer significantly if either of the foundries we use had operations which were disrupted for an extended period of time, due to natural disaster, political unrest or otherwise. In addition, our CyberDisplays are manufactured on 6-inch silicon wafers. Although we are installing an 8-inch manufacturing line we currently do not anticipate redesigning all of our displays made on 6-inch wafers so they can be manufactured on 8-inch wafers. We cannot be assured that if the 6-inch manufacturing facilities we use were damaged they would be restored. If the 6-inch production facilities were not restored we may be required to redesign our displays so that they can be manufactured on an 8-inch production line. If the displays had to be redesigned we may have to have the displays re-qualified by our customers, which would adversely affect our business until such qualification is complete.

In fiscal year 2003, there was an outbreak of Severe Acute Respiratory Syndrome (SARS). There were reports that consumer demand was negatively impacted by the outbreak of SARS. Our sales, manufacturing and distribution processes, and in turn our overall business operations, may be adversely affected if SARS, Avian Flu or similar situations occur.

We depend on third parties to provide integrated circuit chip sets and other critical raw materials for use with our CyberDisplay products. We do not manufacture the integrated circuit chip sets necessary for use with our CyberDisplay products. Instead, we rely on third party independent contractors for these integrated circuit chip sets and other critical raw materials such as special glasses and chemicals. We also use third parties to assemble our binocular display module (BDM). The critical raw materials, including the glasses and chemicals used in manufacturing the CyberDisplay products are used by other display manufacturers, many of which are much larger than Kopin. In addition, our higher-level CyberDisplay assemblies, BDMs, HLAs and other modules include lenses, backlights, printed circuit boards and other components, which we purchase from third party suppliers. Some of these third party contractors and suppliers are small companies with limited financial resources. In addition, relative to the commercial market, the military buys a small number of units which prevents us from qualifying and buying components economically from multiple vendors. If any of these third party contractors or suppliers were unable or unwilling to supply these integrated circuit chip sets or other critical raw materials to us, we would be unable to manufacture and sell our CyberDisplay products until a replacement supplier could be found. We cannot assure investors that a replacement third party contractor or supplier could be found on reasonable terms or in a timely manner. As recently as the third quarter of 2006, we have experienced situations when our vendors could not supply the quantity or quality of critical raw materials we needed. As a result, we were unable to meet customer demand and our revenues, manufacturing yield and gross margins were adversely affected. Currently there is strong worldwide demand for display materials because of the significant growth of display sales over the last few years. In addition, there is strong demand for silicon wafers as a result of an increase in demand for solar cell products. Any interruption in our ability to manufacture and distribute our CyberDisplay products could cause our display business to be unsuccessful and the value of investors' investment in us may decline.

If we are unable to significantly increase our unit sales volume and reduce our production costs, our business will suffer. Our III-V and CyberDisplay product lines currently have significant fixed costs and our ability to achieve or maintain profitability depends upon achieving significant sales volumes and higher gross profit margins. Our III-V product group is primarily comprised of heterojunction bipolar transistor (HBT) products. If we are unable to increase our III-V and CyberDisplay production levels and reduce manufacturing costs, we may lose customer orders and our business may be unprofitable.

We may be unable to increase revenues from our HBT transistor wafers if the third party foundries we plan on using can not get qualified or are unable to produce the required product. We have entered into an agreement with Kopin Taiwan Corporation (KTC) to provide foundry services to manufacture HBT transistor wafers for us. We entered into this agreement to provide us with additional capacity if needed. The ability to use

KTC as a foundry is predicated on our ability to have our customers qualify our products, which utilize KTC's HBT transistor wafers. If we are unable to get the products which utilize KTC's wafers qualified by our customers and we are unable to meet customer demand utilizing only our internal resources we may lose customer orders and our profitability may be negatively affected.

We may not be able to increase revenues and maintain profitability if we are unable to qualify our large capacity metal organic chemical vapor deposition (MOCVD) reactors. We currently sell HBT products on both 4 and 6 inch GaAs wafers. We believe the industry will migrate to 6 inch wafers over the next several years. Our largest customer, who accounted for approximately 31% of our total product revenues for fiscal year 2007, purchases our HBT product on 4 inch GaAs wafers and we expect this customer will eventually migrate to 6 inch GaAs wafers in its manufacturing process. If we are unable to get our reactors qualified by this customer and other customers or if we are able to get the reactor qualified but can not manufacture the quantity our customers require or can not manufacture HBT products on 6 inch GaAs wafers in a cost effective manner our revenues and profitability will decline significantly.

We may be unable to increase revenues from HBT transistor wafers if new product applications are not developed. A critical market for our HBTs is wireless handsets. The growth rate of the wireless handset market has slowed over the last several years. We expect prices of our HBT transistor will decline by approximately 5 to 10 percent during fiscal year 2008. If the wireless handset unit volume grows in the range of 5 to 10 percent for the fiscal year 2008 our HBT revenues may decrease unless we increase our market share or new markets are developed. Revenues may also decline if we lose any of our customers or such customers reduce their orders from us. Accordingly, if we are unable to find additional applications for our HBT transistor wafers or increase our market share, our HBT transistor revenue may not grow and such absence of growth may impact our ability to achieve or maintain profitability.

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

We may not be able to realize any profits under a multi-year supply agreement with a significant HBT customer. We have a supply agreement with a significant HBT customer that expires in July 2008, excluding a last buy option contained in the agreement. Under the terms of this agreement we have agreed to maintain capacity levels for manufacturing HBT wafers and we committed to a declining pricing schedule. The agreement also requires us to give prior notice if we exit our HBT product line. In consideration for this agreement the customer agreed to source 100% of its HBT wafer needs from us subject to the customer's right to source HBT wafers from other sources if we are unable to meet its requirements under certain circumstances. We agreed that failure to meet our supply obligations under the agreement would allow our customer to obtain court ordered specific performance. If we do not perform we could then be liable for monetary damages up to a maximum of \$45 million. The agreement obligates us to provide wafers at preset prices and as a result, our ability to make a profit under this agreement will be subject to fluctuations in the prices of raw materials, meeting customer wafer demand and to any increase in costs of goods or services required for us to perform under the agreement. If we are unable to manufacture the HBT wafers below these preset prices we may not be able to achieve or maintain profitability. There can be no assurance that this customer will agree to renew or extend our agreement when it is due to expire in which case we would potentially lose significant sales of our HBT products.

We may have to record additional impairment losses. In fiscal year 2004, based upon forecasted cash flow of our III-V product line, we recorded an impairment charge of \$3.2 million related to our fixed assets. We recently installed new MOCVD reactors for our III-V product line and a new 8-inch manufacturing line for our display products. The forecasts used in our impairment analyses are based on certain estimates relating to III-V and CyberDisplay product line cash flows generated from these new equipments and previously owned equipment. If such estimates were too high, we may be required to record an additional impairment charge in the future. We use our Korean operation for the back end packing steps required to manufacture some of our commercial CyberDisplay products. Our competition is moving more of its manufacturing operations to China which may make our Korean subsidiary unprofitable and require us to exit it.

We may record additional losses from our investment in the KoBrite joint venture, which may impact our ability to achieve or maintain profitability. We account for our investment in the KoBrite joint venture using the equity method, which requires us to record our proportional share of their operating results up to the amount we have invested or have committed to support, which is our current \$5.0 million investment. For the twelve months ended December 29, 2007, December 30, 2006 and December 31, 2005 we recorded \$0.3 million, \$0.6 million and \$0.2 million, respectively, of losses from the KoBrite joint venture. We anticipate that the joint venture will incur additional losses in the near term. If the joint venture generates operating losses in the future we will record additional losses, which will impact our ability to achieve or maintain profitability.

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

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

The timing and successful introduction of additional manufacturing capacity;

The timing of the initial selection of our III-V and CyberDisplay products as a component in our customers' new products;

Availability of interface electronics for our CyberDisplay products supplied;

Competitive pressures on selling prices of our products;

The timing and cancellation of customer orders;

Our ability to introduce new products and technologies on a timely basis;

Our ability to successfully reduce costs;

The cancellation of U.S. government contracts; and

Edgar Filing: KOPIN CORP - Form 10-K

Our ability to secure agreements from our major customers for the purchase of our products.

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

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

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

Increased competition may result in decreased demand or lower prices for our products. Competition in the markets for our products is intense and we may not be able to compete successfully. We compete with several companies primarily engaged in the business of designing, manufacturing and selling integrated circuits or alternative display technologies, as well as the supply of other discrete products. Our competitors could develop new process technologies that may be superior to ours, including technologies that target markets in which our products are sold. Many of our existing and potential competitors have strong market position, considerable internal manufacturing capacity, established intellectual property rights and substantial technological capabilities. Furthermore, they also have greater financial, technical, manufacturing, and marketing resources than we do, and we may not be able to compete successfully with them.

In addition, many of our existing and potential customers manufacture or assemble displays and wireless communications devices and have substantial in-house technological capabilities and substantially greater resources than we do. We may not be able to sell our products to these customers and they may commercialize their internal capabilities to become our competitors. If one of our large customers establishes internal design and manufacturing capabilities, it could have an adverse effect on our operating results.

We expect competition to increase. This could mean lower prices or reduced demand for our products. Any of these developments would have an adverse effect on our operating results.

Disruptions of our production of our III-V and CyberDisplay products would adversely affect our operating results. If we were to experience any significant disruption in the operation of our facilities, we would be unable to supply III-V and CyberDisplay products to our customers. Our manufacturing processes are highly complex and customer specifications are extremely precise. We periodically modify our processes in an effort to improve yields and product performance and to meet particular customer requirements. In 2008 we anticipate establishing an 8-inch CyberDisplay manufacturing line. Converting to an 8-inch line will require changes to our manufacturing processes. Process changes or other problems that occur in the complex manufacturing process can result in interruptions in production or significantly reduced yields. Although we have two domestic manufacturing facilities for our HBT products only one of the facilities contains our quality control testing and inspection systems. Loss of this facility could prevent us from shipping product made at our other facility. Additionally, as we introduce new equipment into our manufacturing processes, our III-V and CyberDisplay products could be subject to especially wide variations in manufacturing yields and efficiency. We may experience manufacturing problems that would result in delays in product introduction and delivery or yield fluctuations. We are also subject to the risks associated with the shortage of raw materials used in the manufacture of our products.

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

We may not be successful in protecting our intellectual property and proprietary rights. Our success depends in part on our ability to protect our intellectual property and proprietary rights. We have obtained certain domestic and foreign patents and we intend to continue to seek patents on our inventions when appropriate. We also attempt to protect our proprietary information with contractual arrangements and under trade secret laws. Our employees and consultants generally enter into agreements containing provisions with respect to confidentiality and the assignment of rights to inventions made by them while in our employ. These measures

may not adequately protect our intellectual and proprietary rights. Existing trade secret, trademark and copyright laws afford only limited protection and our patents could be invalidated or circumvented. Moreover, the laws of certain foreign countries in which our products are or may be manufactured or sold may not fully protect our intellectual property rights. Misappropriation of our technology and the costs of defending our intellectual property rights from misappropriation could substantially impair our business. If we are unable to protect our intellectual property and proprietary rights, our business may not be successful and the value of investors' investment in us may decline.

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

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

We may pursue acquisitions and investments that could adversely affect our business. In the past we have made, and in the future we may make, acquisitions of, and investments in, businesses, products and technologies that could complement or expand our business. If we identify an acquisition candidate, we may not be able to successfully negotiate or finance the acquisition or integrate the acquired businesses, products or technologies into our existing business and products. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, amortization expenses and write-downs of acquired assets.

We may incur significant liabilities if we fail to comply with stringent environmental and the International Traffic in Arms regulations or if we did not comply with these regulations in the past. We are subject to a variety of federal, state and local governmental regulations related to the use, storage, discharge and disposal of toxic or otherwise hazardous chemicals used in our manufacturing process. We are also subject to federal International Traffic in Arms Regulations (ITAR) laws which regulate the export of technical data and sale of products to other nations which may use these products for military purposes. The failure to comply with present or future regulations could result in fines being imposed on us, suspension of production, or a cessation of operations. Any failure on our part to control the use of, or adequately restrict the discharge of, hazardous

substances, or otherwise comply with environmental regulations, could subject us to significant future liabilities. Any failure on our part to obtain any required licenses for the export of technical data and/or sales of our products or to otherwise comply with ITAR, could subject us to significant future liabilities. In addition, we cannot be certain that we have not in the past violated applicable laws or regulations, which violations could result in required remediation or other liabilities. We also cannot be certain that past use or disposal of environmentally sensitive materials in conformity with then existing environmental laws and regulations will protect us from required remediation or other liabilities under current or future environmental laws or regulations.

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

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

Item 1B. *Unresolved SEC Comments*

None.

Item 2. *Properties*

We lease our III-V and CyberDisplay product fabrication facilities. Our III-V product manufacturing facilities and corporate headquarters are located in Taunton, Massachusetts. The Taunton facilities occupy 25,100 and 60,000 square feet, including 6,000 and 4,900 square feet of contiguous environmentally controlled production clean rooms. The Taunton facilities are occupied under leases that expire through 2010 and 2012.

Our CyberDisplay production facility occupies 74,000 square feet in Westborough, Massachusetts, of which 10,000 square feet consist of contiguous environmentally controlled production clean rooms, of which 7,000 square feet are operated at a Class 10 level. We occupy our Westborough facility under a lease that expires in March 2012.

In addition to our Massachusetts facilities, we lease a 5,800 square foot design facility in Scotts Valley, California for developing prototypes of products incorporating our CyberDisplay product. This facility is occupied under a lease that expires in October 2012. Our subsidiary, Kowon Technology Co., LTD, owns two facilities in Kyungii-Do, South Korea, in which it manufactures its products and in which its corporate headquarters are located. These facilities occupy an aggregate of 28,000 square feet.

Item 3. *Legal Proceedings*

Edgar Filing: KOPIN CORP - Form 10-K

Late SEC Filings and NASDAQ Delisting Proceedings

As a result of our Special Committee Investigation commencing in November 2006 we failed to timely file our Form 10-Q for the three month period ended September 30, 2006, in March 2007 we failed to timely file our Form 10-K for the year ended December 30, 2006, and in May 2007, August 2007, and November 2007 we failed to timely file our Forms 10-Q for the three month periods ended March 31, 2007, June 30, 2007, and September 29, 2007, respectively. On November 15, 2006 NASDAQ notified us that the failure to file our Form 10-Q for the three month period ended September 30, 2006 caused us to violate the requirements for continued

listing as set forth in Marketplace Rule 4310(c)(14) and that the Company's stock would be suspended from trading on November 27, 2006. On November 21, 2006 we requested a hearing before a NASDAQ Listing Qualifications Panel, or the Panel, to petition for continued listing on the NASDAQ Stock Market. The hearing was held on January 18, 2007. On February 22, 2007 the Panel informed us that we had been granted until May 14, 2007 to file our Form 10-K for the year ended December 30, 2006 and Form 10-Q for the interim period September 30, 2006 and any required restatements. On May 4, 2007 the Company made a request to the Panel for additional time beyond the May 14, 2007 deadline to file the delinquent Form 10-K and Forms 10-Q. On May 9, 2007 the Panel denied our request for additional time and notified the Company that it would suspend trading of the Company's stock on May 16, 2007. On May 14, 2007, NASDAQ Listing and Hearing Review Council, or the Council, notified us that it had called the Company's case for review and would delay its delisting pending a hearing before the Council. On May 16, 2007, NASDAQ informed us that Company was not in compliance with NASDAQ Marketplace Rule 4310(c)(14) because it did not timely file its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007. NASDAQ stayed any delisting as a result of our failure to file our Form 10-Q on a timely basis pending the hearing before the Council. On July 27, 2007 the Council notified us that we had until September 25, 2007 to file our Form 10-K for the year ended December 30, 2006, and Forms 10-Q for the interim periods September 30, 2006 and March 31, 2007 and any required restatements or the Company would be delisted on September 27, 2007. On September 7, 2007 we requested that the NASDAQ's Board of Directors exercise its discretionary authority under Rule 4809 to grant the Company continued listing beyond the Council's September 25, 2007 deadline to allow the Company time to complete its investigation into the Company's past stock option practices and related accounting and prepare and file its audited financial statements. On September 17, 2007 the NASDAQ's Board of Directors called for review the July 27, 2007 decision of the Council regarding Kopin's Common Stock and, pending further consideration, has stayed the Council's decision to suspend the Company's securities from trading. On October 17, 2007, the NASDAQ Board of Directors further stayed the suspension from trading until December 17, 2007. On December 12, 2007 the Board of Directors of the NASDAQ granted the Company additional time to regain compliance with NASDAQ rules regarding the timely filing of periodic reports with the U.S. Securities and Exchange Commission. The Board instructed the NASDAQ staff to give the Company until February 11, 2008 to file all delayed periodic reports necessary to regain compliance with the filing requirements. On February 7, 2008 the NASDAQ board further stayed the suspension from trading until March 17, 2008.

Although we have now filed all previously delinquent reports, consisting of Form 10-K for the year ended December 30, 2006, our Forms 10-Q for the quarters ended September 30, 2006, March 31, 2007, June 30, 2007, and September 29, 2007, if the SEC disagrees with the manner in which we have accounted for and reported, or not reported, the financial impact of past stock-based awards, there could be further delays in filing subsequent SEC reports that might result in the delisting of our common stock from the NASDAQ Stock Market.

Derivative Lawsuits On August 15, 2006, two lawsuits were filed in Superior Court, Bristol County, Massachusetts against certain officers and directors of Kopin, purportedly derivatively on behalf of the Company (the Derivative Suits). The complaints in the Derivative Suits assert that the named officers and directors breached their fiduciary duties and other obligations to the Company in connection with the Company's historical stock-based award granting process, the accounting for past stock-based awards, and historical sales of stock by certain individual defendants. Kopin is also named as a nominal defendant in the Derivative Suits, although the lawsuits are derivative in nature and purportedly asserted on behalf of Kopin.

Securities Law Action On September 6, 2007, a complaint was filed against the Company and certain of its directors and officers in Superior Court, Bristol County, Massachusetts purportedly on behalf of a class of shareholders who held Kopin stock on September 6, 2007 (the Securities Law Action). The plaintiffs in this action assert claims arising under Delaware General Corporations Law § 211(c), alleging that the Company failed to hold an annual shareholder meeting within the past thirteen months. The plaintiffs seek an order requiring the Company to schedule an annual shareholder meeting and to provide notice of the meeting in accordance with Kopin's by-laws.

Due to the inherent uncertainties of litigation, we cannot predict the outcome of the Securities Law Action and the derivative lawsuits at this time, and we can give no assurance that the claim will not have a material adverse affect on our financial position or results of operations.

Indemnification Obligations

Subject to certain limitations, we are obligated to indemnify our current and former directors, officers and employees in connection with the investigation of our historical stock option practices and related government inquiries and litigation. These obligations arise under the terms of our certificate of incorporation, our bylaws, applicable contracts, and Delaware law. The obligation to indemnify generally means that we are required to pay or reimburse the individuals reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters. We are currently paying or reimbursing legal expenses being incurred in connection with these matters by a number of our current and former directors, officers and employees. Although the maximum potential amount of future payments Kopin could be required to make under these agreements is theoretically unlimited, the Company believes the fair value of this liability is adequately covered within the reserves it has established for currently pending legal proceedings.

Other Legal Matters

We are named from time to time as a party to lawsuits in the normal course of our business. Litigation in general, and intellectual property and securities litigation in particular, can be expensive and disruptive to normal business operations. Moreover, the results of legal proceedings are difficult to predict.

Item 4. *Submission of Matter to a Vote of Security Holders*

Not applicable.

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

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

	High	Low
Fiscal Year Ended December 29, 2007		
First Quarter	\$ 4.03	\$ 3.26
Second Quarter	4.21	3.07
Third Quarter	4.45	3.38
Fourth Quarter	3.98	3.00
Fiscal Year Ended December 30, 2006		
First Quarter	\$ 5.89	\$ 4.18
Second Quarter	5.68	3.56
Third Quarter	3.82	3.08
Fourth Quarter	3.70	3.21

As of December 29, 2007, there were approximately 523 stockholders of record of our common stock, which does not reflect those shares held beneficially or those shares held in street name.

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

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

Equity Compensation Plan Information

The following table sets forth information as of December 29, 2007 about shares of the Company's common stock outstanding and available for issuance under our existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
	6,032,297	\$ 12.14	1,246,104(3)

Edgar Filing: KOPIN CORP - Form 10-K

Equity compensation plans approved by security holders(1)				
Equity compensation plans not approved by security holders(2)	826,025	\$	8.41	134,379
Total	6,858,322	\$	11.69	1,380,483

- (1) Consists of the 1992 Stock Option Plan and 2001 Equity Incentive Plan.
- (2) Consists solely of the 2001 Supplemental Equity Incentive Plan, which does not require the approval of, and has not been approved by, our stockholders. Non-qualified options were issued under such plan.
- (3) Options available under the 2001 Equity Incentive Plan.

Kopin Corporation

S&P 500 Information Technology Index

Nasdaq Stock Market U.S. Index

Item 6. Selected Financial Data

This information should be read in conjunction with our consolidated financial statements and notes thereto, and our Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

	Fiscal Year Ended				
	2007	2006	2005	2004	2003
(in thousands, except per share data)					
Statement of Operations Data:					
Revenues:					
Net product revenues	\$ 94,191	\$ 65,902	\$ 85,247	\$ 85,213	\$ 74,883
Research and development revenues	3,958	5,189	5,049	2,068	1,669
Total revenues	98,149	71,091	90,296	87,281	76,552
Expenses:					
Cost of product revenues	78,625	49,293	54,970	73,182	61,419
Research and development funded programs	3,157	4,908	6,498	2,340	1,823
Research and development internal	8,300	5,341	5,766	12,693	13,014
Selling, general and administrative	18,009	19,317	14,114	10,141	10,228
Other				240	481
Impairment charges(1)			518	5,323	
	108,091	78,859	81,866	103,919	86,965
(Loss) income from operations	(9,942)	(7,768)	8,430	(16,638)	(10,413)
Other income and expense:					
Interest income	4,451	4,786	3,596	2,821	2,645
Other income	85	468	76	178	199
Other-than-temporary impairment of Micrel common stock	(123)				
Gains on sales of Micrel common stock		1,208			312
Foreign currency transaction gains (losses)	93	(773)	(226)	(1,009)	(114)
Interest and other expense	(68)	(56)	(122)	(70)	(30)
	4,438	5,633	3,324	1,920	3,012
(Loss) income before income taxes, minority interest in loss (income) of subsidiary, equity losses in unconsolidated affiliates and cumulative effect of accounting change	(5,504)	(2,135)	11,754	(14,718)	(7,401)
Tax (provision) benefit	(465)	273	(162)	330	
(Loss) income before minority interest in loss (income) of subsidiary, equity losses in unconsolidated affiliates and cumulative effect of accounting change	(5,969)	(1,862)	11,592	(14,388)	(7,401)
Minority interest in loss (income) of subsidiary	(312)	307	(435)	(106)	(873)
Equity losses in unconsolidated affiliates	(275)	(594)	(210)	(879)	(1,366)
(Loss) income before cumulative effect of accounting change	(6,556)	(2,149)	10,947	(15,373)	(9,640)
Cumulative effect of accounting change(2)			(443)		
Net (loss) income	\$ (6,556)	\$ (2,149)	\$ 10,504	\$ (15,373)	\$ (9,640)
(Loss) income before cumulative effect of accounting change per share:					
Basic	\$ (0.10)	\$ (0.03)	\$ 0.16	\$ (0.22)	\$ (0.14)
Diluted	\$ (0.10)	\$ (0.03)	\$ 0.16	\$ (0.22)	\$ (0.14)
Cumulative effect of accounting change per share:					
Basic	\$	\$	\$ (0.01)	\$	\$
Diluted	\$	\$	\$ (0.01)	\$	\$
Net (loss) income per share:					
Basic	\$ (0.10)	\$ (0.03)	\$ 0.15	\$ (0.22)	\$ (0.14)
Diluted	\$ (0.10)	\$ (0.03)	\$ 0.15	\$ (0.22)	\$ (0.14)
Weighted average number of common shares outstanding:					
Basic	67,544	68,064	69,334	70,052	69,540

Edgar Filing: KOPIN CORP - Form 10-K

Diluted 67,544 68,064 69,879 70,052 69,540

	Fiscal Year Ended				
	2007	2006	2005	2004	2003
Balance Sheet Data:					
Cash and cash equivalents and marketable debt securities	93,304	105,360	119,757	111,900	120,334
Working capital	107,931	116,119	128,950	123,509	115,822
Total assets	161,054	161,413	166,334	156,452	174,820
Long-term obligations	806	772	740		
Total stockholders' equity	137,501	140,965	146,275	139,419	153,053

- (1) The Company recorded a \$0.5 million and \$5.3 impairment charge in fiscal year 2005 and 2004, respectively, as a result of its discontinuance of CyberLite LED manufacturing and development activities.
- (2) The Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143, in 2005.

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

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

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

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

Revenue Recognition

We recognize revenue in accordance with Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). SAB 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred and services rendered; (3) the price to the buyer is fixed or determinable; and (4) collectability is reasonably assured. We do not recognize revenue for products prior to customer acceptance unless we believe the product meets all customer specifications and has a history of consistently achieving customer acceptance of the product. Provisions for product returns and allowances are recorded in the same period as the related revenues. We analyze historical returns, current economic trends and changes in customer demand and acceptance of product when evaluating the adequacy of sales returns and other allowances. Certain product sales are made to distributors under agreements allowing for a limited right of return on unsold products. Sales to distributors are primarily made for sales to the distributors' customers and not for stocking of inventory. We delay revenue recognition for our estimate of distributor claims of right of return on unsold products based upon our historical experience with our products and specific analysis of amounts subject to return based upon discussions with our distributors or their customers.

We recognize revenues from long-term research and development contracts on the percentage-of-completion method of accounting as work is performed, based upon the ratio of costs or hours already incurred to the estimated total cost of completion or hours of work to be performed. Revenue recognized at any point in time is limited to amounts earned under milestones included in contracts, if such provisions exist. We account for product development and research contracts that have established prices for distinct phases as if each phase were a separate contract. We classify amounts earned on contracts in progress that are in excess of amounts billed as unbilled receivables and we classify amounts received in excess of amounts earned as billings in excess of revenues earned. We invoice based on dates specified in the related agreement or in periodic installments based upon our invoicing cycle. We recognize the entire amount of an estimated ultimate loss in our financial statements at the time the loss on a contract becomes known. If our estimate of total contract costs or our determination of whether the customer agrees that a milestone is achieved is incorrect, our revenue could be overstated and profits would be negatively impacted.

Bad Debt

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

Inventory

We provide a reserve for estimated obsolete or unmarketable inventory based on assumptions about future demand and market conditions and our production plans. Inventories that are obsolete or slow moving are generally fully reserved (representing the estimated net realizable value) as such information becomes available. Our III-V products are made to each customer's unique specifications and are generally produced upon receipt of a customer order. The manufacturing time to make our III-V products is less than one day; accordingly our III-V inventory consists primarily of raw material, primarily gallium arsenide wafers, or finished products. The finished product may be at our facilities or at our customer's facilities under consignment programs. Our display products are manufactured based upon production plans whose critical assumptions include non binding demand forecasts provided by our customers, lead times for raw materials, lead times for wafer foundries to perform circuit processing and yields. If a customer were to cancel an order or actual demand was lower than forecasted demand, we could not sell the excess III-V inventory and we may not be able to sell the excess display inventory and additional reserves would be required. If we were unable to sell the excess inventory, we would establish reserves to reduce the inventory to its estimated realizable value (generally zero).

Investment Valuation

We hold a minority investment in Micrel Incorporated, a publicly traded company whose share prices may be highly volatile. We consider this investment to be available for sale and accordingly account for fluctuations in the value of this investment in accumulated other comprehensive income. If, however, we were to determine that the fair value of this investment had been other than temporarily impaired, we would be required to charge the loss directly to the statement of operations. This investment had a fair market value of \$1.7 million at December 29, 2007, which was less than our carrying value at that date, and accordingly we recorded a \$0.1 million charge to the statement of operations to reduce the investment to its fair value. The determination that a decline is other-than-temporary is subjective and influenced by many factors. When assessing a publicly-traded investment for an other-than-temporary decline in value, we consider such factors as, among other things, how significant the decline in value is as a percentage of the original cost, how long the market value of the investment has been less than its original cost, the performance of the investee's stock price in relation to the stock price of its competitors within the industry and the market in general and analyst recommendations. We also review the financial statements of the investee to determine if the investee is experiencing financial difficulties. In the event our judgments change as to other-than-temporary declines in value, we may record an additional impairment loss, which could have an adverse impact on our results of operations.

We periodically make equity investments in private companies, accounted for on the cost or equity method, whose values are difficult to determine. When assessing investments in private companies for an other-than-temporary decline in value, we consider such factors as, among other things, the share price from the investee's latest financing round, the performance of the investee in relation to its own operating targets and its business plan, the investee's revenue and cost trends, the liquidity and cash position, including its cash burn rate and market acceptance of the investee's products and services. We provide for an impairment valuation if we believe a decline in the value of an investment is other-than-temporary.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

Edgar Filing: KOPIN CORP - Form 10-K

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we periodically review the carrying value of our long-lived assets to determine if facts and circumstances suggest that they may be impaired or that the amortization or depreciation period may need to be changed. The carrying

value of a long-lived asset is considered impaired when the anticipated identifiable undiscounted cash flows from such asset are less than its carrying value. For assets that are to be held and used, impairment is measured based upon the amount by which the carrying amount of the asset exceeds its fair value. If our estimates of anticipated future cash flows or market conditions were incorrect, additional impairment charges may be required. During 2005 we recognized \$0.5 million of impairment charges related to assets held for use or being transferred to the KoBrite joint venture. We did not incur any impairment charges in 2007 or 2006.

Product Warranty

We generally sell products with a limited warranty of product quality and a limited indemnification of customers against intellectual property infringement claims related to our products. We accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated. As of December 29, 2007, we had a warranty reserve of \$1.0 million, which represents the estimated liabilities for warranty claims in process, potential warranty issues customers have notified us about and an estimate based on historical failure rates. For the fiscal years 2007, 2006 and 2005, our warranty expense was approximately \$0.6 million, \$0.4 million and \$0.8 million, respectively. If our estimates for warranty claims are incorrect, our revenue could be overstated and profits would be negatively impacted.

Income Taxes

The Company has historically incurred domestic operating losses from both a financial reporting and tax return standpoint. We establish valuation allowances if it appears more likely than not that our deferred tax assets will not be realized. These judgments are based on our projections of taxable income and the amount and timing of our tax operating loss carryforwards and other deferred tax assets. Given our federal operating tax loss carryforwards, we do not expect to pay domestic federal taxes in the near term. It is possible that we could pay domestic alternative minimum taxes and state income taxes. We are also subject to foreign taxes from our Korean subsidiary operations.

Our income tax provision is based on calculations and assumptions that will be subject to examination by tax authorities. Despite our history of operating losses there can be exposures for state taxes, federal alternative minimum taxes or foreign tax that may be due. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. Should the actual results differ from our estimates, we would have to adjust the income tax provision in the period in which the facts that give rise to the revision become known. Such adjustment could have a material impact on our results of operations. We also establish valuation allowances when recovery of such net deferred tax assets is not considered more likely than not. These judgments consider our historical results and forecasts of future results. Because of our history of operating losses, our net operating loss carryforwards have had a full valuation allowance associated with them.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, *Accounting for Income Taxes* (FIN 48). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement with the tax authorities. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

There was no impact upon the adoption of FIN 48 on December 31, 2006. There are no known tax positions which are reasonably possible to change over the next twelve months necessitating a significant change in our unrecognized tax benefits.

Stock Compensation

We estimate the fair value of each stock-based award on the date of grant using the Black-Scholes-Merton option valuation model. The Black-Scholes-Merton option valuation model incorporates assumptions as to stock price volatility, the expected life of options, a risk-free interest rate and dividend yield. Many of these assumptions are highly subjective and require the exercise of management judgment. Our management must also apply judgment in developing an estimate of awards that may be forfeited. If our actual experience differs significantly from our estimates and we choose to employ different assumptions in the future, the stock-based compensation expense that we record in future periods may differ materially from that recorded in the current period. Such options vest over, in general, over a four year period. We did not issue any new stock option awards during 2006 or 2007; rather we elected to make awards of restricted shares. These awards are generally valued at the value of the underlying shares on the date they are granted and require us only to estimate forfeiture rates.

Results of Operations

Our fiscal year ends on the last Saturday in December. The fiscal year ended December 31, 2005 includes 53 weeks and the fiscal years ended December 27, 2007 and December 30, 2006 each include 52 weeks. The fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005 are referred to as fiscal years 2007, 2006 and 2005, respectively, herein.

We are a leading developer and manufacturer of advanced semiconductor materials and miniature displays. We use our proprietary semiconductor material technology to design, manufacture and market our III-V and CyberDisplay products for use in highly demanding commercial wireless communications and high-resolution portable consumer electronic applications. Our products enable our customers to develop and market an improved generation of products for these target applications.

We have two principal sources of revenues: product revenues and research and development revenues. Product revenues consist of sales of our III-V products, principally gallium arsenide (GaAs) HBT transistor wafers, and CyberDisplay products. Research and development revenues consist primarily of development contracts with agencies of the U.S. government. Research and development revenues were \$4.0 million, or 4% of 2007 revenues, \$5.2 million, or 7% of total 2006 revenues and \$5.0 million, or 6% of total revenues in 2005.

Kowon, our Korean subsidiary and one of our reportable segments, provides to us back-end packaging services related to our CyberDisplay products as well as selling displays to other customers.

Fiscal Year 2007 Compared to Fiscal Year 2006

Revenues. Our revenues, which include product sales and amounts earned from research and development contracts, for fiscal years 2007 and 2006, were as follows:

Revenues	2007	2006
III-V	\$ 43.5	\$ 43.9
CyberDisplay	54.6	27.2

Total	\$ 98.1	\$ 71.1
-------	---------	---------

The decrease in our III-V revenues resulted from a net increase in unit demand for our HBT transistor wafers from customers that use them in wireless handset applications, which was partially off set by price declines of our HBT products and a decline in our CyberLite revenues, which were \$0.8 million for the year ended 2006. Our CyberLite revenues declined because we sold the product line to the KoBrite joint venture in 2004. The increase in display revenues in fiscal year 2007 compared to fiscal year 2006 resulted from an increase

in sales of our CyberDisplay products to customers that use them for digital still camera applications and military applications. Display revenues for consumer and military applications for 2007 and 2006 were as follows:

CyberDisplay Revenues by Category	2007	2006
Consumer Electronic Applications	\$ 29.3	\$ 9.0
Military Application	15.8	11.3
Eyewear Application	6.3	3.3
Research & Development	3.2	3.6
Total	\$ 54.6	\$ 27.2

Revenues of our Korean subsidiary, Kowon, are included in CyberDisplay revenues and are primarily to us and Samsung Electronics for camcorder applications. Kowon's revenues increased as a result of demand from us to support our increased sales of displays to customers that use them for digital still camera applications. Revenues of Kowon were as follows for 2007 and 2006.

CyberDisplay Revenues by Segment	2007		2006	
Kopin U.S. revenues		\$ 49.0		\$ 21.2
Kowon revenues to other customers				
Kowon revenues	\$ 34.4		\$ 8.9	
Kowon sales to Kopin	(28.8)	5.6	(2.9)	6.0
Total CyberDisplay Revenues		\$ 54.6		\$ 27.2

Based on current discussions with our customers and certain contractual obligations, we expect the prices of certain of our products to decline in fiscal year 2008. We anticipate the average selling price of our HBT transistor wafers and display products sold to customers for consumer electronics applications will decline approximately 5% to 10% during fiscal year 2008 relative to 2007. The overall increase or decrease in the average sales price of our display products will be dependent on the sales mix of commercial and military display sales.

For 2008 the Company anticipates revenues will be between \$105 million and \$115 million.

We currently manufacture and sell HBT wafers on either four or six inch GaAs. We believe the industry will migrate to six inch wafers over the next several years. Our largest customer, who accounted for approximately 31% of our 2007 total revenues (see Item 1A, Risk Factors for explanation of percent of revenue calculation), purchases our HBT products on four inch GaAs wafers and we expect this customer will eventually migrate to using six inch GaAs wafers in its manufacturing process. If we are unable to get the new reactors and our other reactors qualified by our largest and other customers or if we are able to get the reactor qualified but can not manufacture the quantity our customers require or can not manufacture on six inch GaAs wafers in a cost effective manner, our revenues and results of operations could decline significantly.

Our Purchase and Supply Agreement with our largest HBT transistor wafer customer, who accounted for approximately 31% of our 2007 total revenues, terminates in July 2008. We are currently renegotiating this agreement; however, if we are unable to renew this agreement or we renew it on less favorable terms our revenue and results of operations may decline.

Edgar Filing: KOPIN CORP - Form 10-K

International sales represented 41% and 35% of product revenues for fiscal years 2007 and 2006 respectively. The increase in international sales is primarily attributable to an increase in sales of our CyberDisplay products for digital still camera applications to Asian customers. International sales are primarily sales of CyberDisplay products to consumer electronic manufacturers primarily located in Japan, Korea and

China. 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, sales of our CyberDisplay products in Korea are transacted through our Korean subsidiary, Kowon Technology Co., LTD. Kowon's sales are primarily denominated in U.S. dollars. However, Kowon's local operating costs are primarily denominated in Korean won. Kowon also holds U.S. dollars in order to pay various expenses. As a result, our financial position and results of operations are subject to exchange rate fluctuation in transactional and functional currency. We have not taken any protective measures against exchange rate fluctuations, such as purchasing hedging instruments with respect to such fluctuations, because of the historically stable exchange rate between the Japanese yen, Korean won and the U.S. dollar.

Cost of Product Revenues.

	2007	2006
Cost of product revenue (in millions)	\$ 78.6	\$ 49.3
Cost of product revenue as a % of revenues	83.5%	74.8%

Cost of product revenues, which is comprised of materials, labor and manufacturing overhead related to our products, increased approximately \$29.3 million or 59.4% from 2006 to 2007. Our gross margin is affected by sales price declines of our products, changes in raw material prices, unit volume of sales, manufacturing efficiencies and the mix of products sold. As discussed above our sales prices historically decline on an annual basis. Our strategy to offset the impact of the sales price declines has been to increase the unit volume of sales, improve manufacturing efficiencies and increase the sales of products which have higher margins, specifically military products. Our overhead costs and, to a lesser extent, our labor costs are normally stable and do not fluctuate significantly during a three or twelve month period. Essentially, we consider labor and overhead costs to be fixed in nature over the short term and therefore profitability is based on the amount of variable margin we can generate to cover these fixed costs. Variable margin is the product of the number of units sold and the difference between a unit's selling price and its material cost. Gross margins declined in 2007, as compared to 2006, because of a decline in the average unit selling prices of our III-V and display products as compared to 2006 and the impact of an increase in displays sold for digital still camera applications which are sold at a price which generates a small or negative variable margin.

There are a number of different display technologies which can produce displays in small form factors. We believe one of the benefits of our display technology is the ability to produce high resolution displays in small form factors. The camcorder and digital still camera markets are mature and the majority of these devices use low-resolution display products which results in our having limited, if any, competitive advantage over our competitors and therefore the ability to sell displays into these markets is very price dependent. Accordingly for us to generate display revenues with above average gross margins, we will need to increase sales to customers who buy our higher resolution display products, such as the military, or develop new categories such as eyewear.

As we discussed above we expect the sales prices of our products to decline in the future. In addition, we installed a new manufacturing line for our displays and new MOCVD reactors to manufacture our HBT products. These capital equipment investments will increase our depreciation expense by approximately \$2.2 million in 2008. If we are unable to sell higher margin products, primarily displays for military applications, reduce raw material cost or increase manufacturing efficiencies to offset the effects of lower sales price and higher depreciation expense our gross margins will decline.

Research and Development. Research and development (R&D) expenses are incurred in support of internal display and III-V product development programs or programs funded by agencies 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 fiscal years 2007 and 2006 R&D expense was as follows (in millions):

Research and development expense	2007	2006
Funded	\$ 3.2	\$ 4.9
Internal	8.3	5.3
Total	\$ 11.5	\$ 10.2

Funded R&D expense decreased in 2007 as compared to the prior year primarily because of a decrease in funded programs from the U.S. military.

The increase in internal research and development expenses was primarily attributed to cost to develop our 8 inch display and MOCVD III-V manufacturing lines.

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.

	2007	2006
Selling, general and administrative expense	\$ 18.0	\$ 19.3
Selling, general and administrative expense as a % of revenues	18.3%	27.2%

The decrease in S,G&A expenses in 2007 versus 2006 is attributable to a decrease of approximately \$1.9 million for professional fees associated with the stock option practice investigation and the restatement of our historical financial statements partially offset by increases in allowances for accounts receivable of \$0.4 million. Total professional fees for the stock option review were \$1.8 million and \$3.7 million in 2007 and 2006, respectively. We would anticipate that these fees would decrease in 2008, however there is pending litigation associated with the stock option review and we expect to continue to incur associated legal fees in excess of historical amounts.

In fiscal year 2006, we issued 596,750 restricted stock awards, respectively, to certain of our employees. Each award requires the employee to fulfill certain obligations including continued employment with us for periods of either two or four years (the Restriction Period). In connection with the issuance of the awards, we recorded deferred compensation expenses of \$2.0 million for 2006 which are amortized over the Restriction Period, or earlier if the vesting accelerates due to meeting performance conditions.

Other Income and Expense.

	2007	2006
Other income and expense	\$ 4.4	\$ 5.6

Edgar Filing: KOPIN CORP - Form 10-K

Other income and expense in 2007 includes interest and miscellaneous income of \$4.5 million, \$0.1 million of foreign exchange gains, \$0.1 million for the other-than-temporary impairment charge of our investment in Micrel and \$0.1 million of miscellaneous bank fees and other expense. Other income and expense for 2006 includes interest and miscellaneous income of \$5.3 million, \$1.2 million of gain on the sale of Micrel stock, \$0.8 million of foreign exchange losses and \$0.1 of miscellaneous bank fees and other expense.

Minority interest in (income) loss of subsidiary. We own approximately 78% of the equity of Kowon Technology Co. Ltd. (Kowon). Minority interest on the consolidated statement of operations represents the

portion of the results of operations of Kowon which is allocated to the shareholders of the approximately 22% of Kowon not owned by us. The change in the minority interest in loss (income) of subsidiary is the result of the change in the results of operations of Kowon. The change in the results of operations of Kowon from 2006 to 2007 was due to increased sales volume of displays to us to support the increase in sales for digital still camera applications.

Equity loss in unconsolidated affiliate consists of our approximate 25% share of the losses of KoBrite totaling \$0.3 million in 2007 and \$0.6 million in 2006.

Tax (provision) benefit. The provision for income taxes for fiscal years ended 2007 represents alternative minimum taxes owed to U.S. federal and state taxing authorities of \$0.1 million and foreign taxes on the income of our subsidiary Kowon of \$0.4 million. The benefit for income taxes for fiscal year 2006 represents the reversal of tax contingencies due to the expiration of the statute of limitations of \$0.3 million, a tax benefit from a loss carryback of \$0.5 million offset by alternative minimum taxes of \$0.1 million and the provision of a valuation allowance on our foreign deferred tax assets of \$0.4 million.

Fiscal Year 2006 Compared to Fiscal Year 2005

Revenues. Our revenues, which include product sales and amounts earned from research and development contracts, for fiscal years 2006 and 2005, were as follows:

Revenues	2006	2005
III-V	\$ 43.9	\$ 42.7
CyberDisplay	27.2	47.6
Total	\$ 71.1	\$ 90.3

The increase in our III-V revenues resulted from a net increase in unit demand for our HBT transistor wafers from customers that use them in wireless handset applications, which was partially off set by price declines of our HBT products and a decline in our CyberLite revenues, which were \$0.8 million and \$1.3 million for the years ended 2006 and 2005, respectively. Our CyberLite revenues declined because we transferred the product line to the KoBrite joint venture discussed above. The decrease in display revenues in fiscal year 2006 compared to fiscal year 2005 resulted from a decline in sales of our CyberDisplay products to customers that use them for camcorder applications partially offset by an increase in military application sales. For 2006 we had anticipated that sales of our displays to customers who buy our displays for camcorder applications would decrease as compared to the prior year but this would be partially offset by an increase in sales to customers who purchased our displays for military applications as compared to the prior year. Although the sales of our displays to customers for camcorder applications did decline in 2006, shipments of our displays to customers for military applications occurred sporadically during the year as our customers worked to get their products qualified with the U.S. military and therefore sales of our products for military applications was lower than we anticipated. In addition, sales of our displays for use in consumer electronic applications were lower than in 2005. Display revenues for consumer and military applications for 2006 and 2005 were as follows:

CyberDisplay Revenues by Category	2006	2005
Consumer Electronic Applications	\$ 9.0	\$ 31.6
Military Application	11.3	10.0
Eyewear Application	3.3	1.8
Research & Development	3.6	4.2

Total	\$ 27.2	\$ 47.6
-------	---------	---------

Revenues of our Korean subsidiary, Kowon, are included in CyberDisplay revenues and are primarily to us and Samsung Electronics for camcorder applications. Kowon's sales declined as a result of lesser demand from camcorder customers. Kowon's sales for 2006 and 2005 were as follows:

CyberDisplay Revenues by Segment	2006		2005	
Kopin USA revenues		\$ 21.2		\$ 33.3
Kowon revenues to other customers				
Kowon revenues	\$ 8.9		\$ 26.3	
Kowon sales to Kopin	(2.9)	6.0	(12.0)	14.3
Total CyberDisplay Revenues		\$ 27.2		\$ 47.6

Based on current discussions with our customers and certain contractual obligations, we expect the prices of certain of our products to decline in fiscal year 2007 and 2008. We anticipate the average selling price of our HBT transistor wafers and display products sold to customers for consumer electronics applications will decline approximately 5% to 10% during fiscal year 2008 relative to 2007 and 2006. The overall increase or decrease in the average sales price of our display will be dependent on the sales mix of commercial and military display sales.

During fiscal year 2006, we acquired metal organic chemical vapor deposition (MOCVD) reactors, which can produce our HBT products on either four or six inch gallium arsenide (GaAs) wafers. However, we acquired the reactors primarily for their ability to process six inch GaAs wafers. We currently have other reactors which also can manufacture HBTs using either four or six inch GaAs wafers and we sell HBT products on both four and six inch GaAs wafers. We believe the industry will migrate to six inch wafers over the next several years. Our largest customer, who accounted for approximately 49% of our 2006 total revenues (see Item 1A, Risk Factors for explanation of percent of revenue calculation), purchases our HBT products on four inch GaAs wafers and we expect this customer will migrate to using six inch GaAs wafers in its manufacturing process. If we are unable to get the new reactors and our other reactors qualified by our largest and other customers or if we are able to get the reactor qualified but can not manufacture the quantity our customers require or can not manufacture on six inch GaAs wafers in a cost effective manner, our revenues and results of operations could decline significantly.

Our Purchase and Supply Agreement with our largest HBT transistor wafer customer terminates in July 2008. We are currently renegotiating this agreement; however, if we are unable to renew this agreement or we renew it on less favorable terms our revenue and results of operations may decline.

International sales represented 35% and 44% of revenues for fiscal years 2006 and 2005, respectively. The decrease in international sales is primarily attributable to increase in domestic sales of our HBT products and military sales of our display products and a decrease in our international CyberDisplay sales for camcorder applications and our CyberLite LED sales. International sales are primarily sales of CyberDisplay products to consumer electronic manufacturers primarily located in Japan, Korea and China and CyberLite LED sales to Japan and China. Our international sales are primarily denominated in U.S. currency. Consequently, a strengthening of the U.S. dollar increases 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, sales of our CyberDisplay products in Korea are transacted through our Korean subsidiary, Kowon. Kowon's sales are primarily denominated in U.S. dollars. However, Kowon's local operating costs are primarily denominated in Korean won. Kowon also holds U.S. dollars in order to pay various expenses. As a result, our financial position and results of operations are subject to exchange rate fluctuation in transactional and functional currency. We have not taken any protective measures against exchange rate fluctuations, such as purchasing hedging instruments with respect to such fluctuations, because of the historically stable exchange rate between the Japanese yen, Korean won and the U.S. dollar.

Cost of Product Revenues.

	2006	2005
Cost of product revenue (in millions)	\$ 49.3	\$ 55.0
Cost of product revenue as a % of revenues	74.7%	64.4%

Cost of product revenues, which is comprised of materials, labor and manufacturing overhead related to our products, decreased approximately \$5.7 million or 10% from 2005 to 2006. Cost of sales of CyberLite products for fiscal year was \$1.0 million for fiscal year 2005 and \$0 for fiscal year 2006 as we had no sales of CyberLite in 2006. Our gross margin is affected by sales price declines of our products, changes in raw material prices, unit volume of sales, manufacturing efficiencies and the mix of products sold. As discussed above our sales prices historically decline on an annual basis. Our strategy to offset the impact of the sales price declines has been to increase the unit volume of sales, improve manufacturing efficiencies and increase the sales of products which have higher margins, specifically military products. Our overhead costs and, to a lesser extent, our labor costs are normally stable and do not fluctuate significantly during a three or twelve month period. Essentially, we consider labor and overhead costs to be fixed in nature over the short term and therefore profitability is based on the amount of variable margin we can generate to cover these fixed costs. Variable margin is the product of the number of units sold and the difference between a unit's selling price and its material cost. Gross margins declined in 2006, as compared to 2005, because of a decline in the average unit selling prices of our III-V and display products as compared to 2005 and the impact of the decline in display unit sales in 2006, while the costs of labor and overhead remained approximately the same as 2005.

Research and Development. Research and development expenses (R&D) are incurred in support of internal display and III-V product development programs or programs funded by agencies of the U.S. government and commercial partners. Research and development costs include staffing, purchases of materials and laboratory supplies, circuit design costs, fabrication and packaging of display products, and overhead. For fiscal years 2006 and 2005, R&D expense was as follows (in millions):

Research and development expense	2006	2005
Funded	\$ 4.9	\$ 6.5
Internal	5.3	5.8
Total	\$ 10.2	\$ 12.3

Funded R&D expense decreased in 2006 as compared to the prior year primarily because of the discontinuance of light emitting diode research in 2005 which was partially offset by an increase in R&D expenses for military programs. For fiscal 2005 funded R&D included \$2.0 million to support the KoBrite joint venture.

Internal research and development expenses were \$5.3 million in fiscal year 2006 compared to \$5.8 million for fiscal year 2005. The decrease in internal research and development expenses was primarily attributed to the lower development cost for our CyberLite products offset by development efforts for III-V and display products. During fiscal year 2005, we spent approximately \$0.1 million, including allocated overhead, on CyberLite LED research and development costs.

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.

2006	2005
------	------

Edgar Filing: KOPIN CORP - Form 10-K

Selling, general and administrative expense	\$ 19.3	\$ 14.1
Selling, general and administrative expense as a % of revenues	27.2%	15.6%

The increase in S,G&A expenses is attributable to increases of approximately \$3.7 million for professional fees associated with the stock option practice investigation, \$0.8 million for stock based compensation expense associated with the vesting of restricted stock awards and \$0.4 million for recurring professional fees.

In fiscal years 2006 and 2005, we issued 596,750 and 607,500 restricted stock awards, respectively, to certain of our employees. Each award requires the employee to fulfill certain obligations including continued employment with us for periods of either two or four years (the Restriction Period). In connection with the issuance of the awards, we recorded deferred compensation expenses of \$2.0 million and \$2.9 million for 2006 and 2005, respectively, which are amortized over the Restriction Period, or earlier if the vesting accelerates due to meeting performance conditions. Included in S,G&A expenses for fiscal year 2006 and 2005 was non-cash amortization expense of \$0.6 million and \$1.3 million, respectively.

Impairment Charge. In fiscal year 2005, as part of discontinuing our CyberLite LED product line, we terminated the employment of approximately 40 employees and recorded an impairment charge of \$0.5 million.

Other Income and Expense

	2006	2005
Other income and expense	\$ 5.6	\$ 3.3

Other income and expense includes interest and miscellaneous income of \$5.3 million, \$1.2 million of gain on the sale of Micrel stock, \$0.8 million of foreign exchange losses and \$0.1 million of miscellaneous bank fees and other expense for fiscal year 2006. For fiscal year 2005, other income and expense includes interest and miscellaneous income of \$3.7 million, \$0.2 million of foreign exchange losses and \$0.1 million of miscellaneous bank fees and other expense.

Minority interest in loss (income) of subsidiary. We owned approximately 73% of the equity of Kowon Technology Co. Ltd. (Kowon). Minority interest on the consolidated statement of operations represents the portion of the results of operations of Kowon which is allocated to the shareholders of the approximately 27% of Kowon not owned by us. The change in the minority interest in loss (income) of subsidiary is the result of the change in the results of operations of Kowon.

Equity loss in unconsolidated affiliate consists of our approximate 25% share of the losses of KoBrite totaling \$0.6 million in 2006 and \$0.2 million in 2005.

Tax benefit (provision). The benefit for income taxes for fiscal year 2006 represents the reversal of tax contingencies due to the expiration of statutes of limitation of \$0.3 million, a tax benefit from a loss carryback of \$0.5 million offset by alternative minimum taxes of \$0.1 million and the provision of a valuation allowance on our foreign deferred tax assets of \$0.4 million. The fiscal year 2005 provision for taxes represents the reversal of tax contingencies due to the expiration of statutes of limitation of \$0.4 million partially offset by alternative minimum taxes of \$0.2 million and foreign taxes on the income of our Korean subsidiary of \$0.5 million.

Cumulative effect of accounting change. As of December 31, 2005, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 47 (FIN 47) Accounting for Conditional Asset Retirement Obligations an interpretation of Statement of Financial Accounting Standards No. 143 . This interpretation clarifies the timing of liability recognition for legal obligations associated with an assets retirement when

Edgar Filing: KOPIN CORP - Form 10-K

the timing and or method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. The impact of adopting FIN 47 was to record a cumulative effect of accounting change charge of \$0.4 million to recognize the accumulated depreciation as of the date of adoption related to the obligation for restoration of facilities leased by the Company. Total obligations as of December 29, 2007 are estimated to be \$0.8 million.

Liquidity and Capital Resources

As of December 29, 2007, we had cash and equivalents and marketable debt securities of \$93.3 million and working capital of \$107.9 million compared to \$105.4 million and \$116.1 million, respectively, as of December 30, 2006. The decrease in cash and equivalents and marketable securities was primarily due to cash used in operating activities of \$4.1 million and capital expenditures of \$7.6 million. Our marketable debt securities have not been significantly impacted as of December 29, 2007 from the recent issues experienced in the credit markets.

In December 2005, we amended a purchase and supply agreement with a significant HBT customer that now expires in July 2008, excluding a last time buy option contained in the agreement. Under the terms of this agreement we have agreed to maintain capacity levels for manufacturing HBT wafers and we committed to a pricing schedule under certain circumstances. The agreement also requires us to give prior notice if we exit our HBT product line. In consideration for this agreement the customer agreed to source 100% of its HBT wafer needs from us subject to the customer's right to source HBT wafers from other sources if we are unable to meet their requirements under certain circumstances. We agreed that failure to meet our supply obligations under the agreement would allow our customer to obtain court ordered specific performance and if we do not perform we could then be liable for monetary damages up to a maximum of \$45 million.

We lease facilities located in Taunton and Westborough, Massachusetts, and Scotts Valley, California, under non-cancelable operating leases. We have two Taunton facilities, one whose lease expires in 2010 and the other in 2012. The Taunton lease expires in 2010 and may be extended twice for individual 10 year terms. The Westborough and Scotts Valley leases expire in 2012.

We expect to expend between \$5.0 and \$9.0 million on capital expenditures over the next twelve months, primarily for the acquisition of equipment to increase capacity in our III-V product line and implement the 8" production line for our CyberDisplay products.

As of December 30, 2006, we had substantial tax loss carry-forwards, which may be used to offset future federal 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.

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

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which enhances existing guidance for measuring assets and liabilities at fair value. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS No. 157 is effective for the Company's fiscal year beginning December 30, 2008. We are currently assessing the impact, if any, that SFAS No. 157 will have on the results of our operations, financial position or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits an entity to choose, at specified election dates, to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS No. 159 also establishes presentation and disclosure requirements designed to

facilitate comparisons between entities that choose different

measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those financial years. At the effective date, an entity may elect the fair value option for eligible items that exist at that date. The entity shall report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. We did not elect the fair value option for any of our eligible items as of December 30, 2007.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for the Company on December 28, 2008, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented.

Also in December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. SFAS No. 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. It requires acquisition-related costs and restructuring costs that the acquirer expects but is not obligated to incur to be recognized separately from the acquisition. SFAS No. 141(R) modifies the criteria for the recognition of contingencies as of the acquisition date. It also provides guidance on subsequent accounting for acquired contingencies. SFAS No. 141(R) is effective for business acquisitions for which the acquisition date is on or after December 28, 2008. We may not apply it before that date. SFAS 141(R) will not impact our accounting for prior acquisitions.

Seasonality

The markets we sell into are traditionally seasonal and we would expect that as our business matures, our third quarter would be our strongest sales quarter followed by our second quarter then our fourth quarter and our first quarter would be our lowest sales quarter.

Inflation

We do not believe our operations have been materially affected by inflationary forces.

Contractual Obligations

The following is a summary of our contractual payment obligations for operating leases as of December 29, 2007:

Contractual Obligations	Total	Less than 1 year	1-3 Years	3-5 years	More than 5 years
Operating Lease Obligations	\$ 5,286,252	\$ 1,396,819	\$ 3,413,958	\$ 475,476	\$

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Edgar Filing: KOPIN CORP - Form 10-K

We invest our excess cash in high-quality government, government-backed 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 unrecognized gain or loss on interest rate securities. Included in other assets is an equity investment in Micrel, Incorporated (Micrel) totaling approximately \$1.7 million which is subject to changes in value because of either specific operating issues at Micrel or overall changes in the stock market. We are exposed to changes in foreign currency exchange rates primarily through our translation of our foreign subsidiary's 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 remeasurement of United States dollars to the functional currency of our Kowon subsidiary. 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 Gallium Arsenide and Silicon wafers and demand is expected to grow due to new technologies such as solar cells. We do not enter into forward or futures hedging contracts.

Item 8. *Financial Statements and Supplementary Data*

The financial statements required by this Item are included in this Report on pages 42 through 64. Reference is made to Item 15 of this Report.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not Applicable.

Item 9A. *Control and Procedures*

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of the end of the period covered by this report.

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (Disclosure Controls) as of the end of the period covered by this Form 10-K. The controls evaluation was conducted under the supervision and with the participation of management, including our Chief Executive officer and Chief Financial Officer. Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's (SEC's) rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of Disclosure Controls includes an evaluation of some components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis for purposes of providing the management report which is set forth below.

The evaluation of our Disclosure Controls included a review of the controls' objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in this Form 10-K. During the course of our evaluation of our internal control over financial reporting, we advised the Audit Committee of our Board of Directors that we had identified a material weakness as defined under standards established by the Public Company Accounting Oversight Board (United States). A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness we identified is

Edgar Filing: KOPIN CORP - Form 10-K

discussed in Management's Report on Internal Control Over Financial Reporting below. Our Chief Executive Officer and Chief Financial Officer have concluded that as a result of the material weakness, as of the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures were not effective.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of December 29, 2007, based on the criteria outlined in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Based on our assessment, we identified the following material weakness in our internal control over financial reporting as of December 29, 2007. The nature of this weakness in our internal control over financial reporting is described below along with the actual or potential effects on our financial statements as issued during the existence of the material weakness.

Inadequate resources and technical accounting expertise. The Company's resources and level of technical accounting expertise within the accounting function were insufficient to properly evaluate and account for non-routine or complex transactions. Consequently, the Company's controls over the selection and application of accounting policies in accordance with generally accepted accounting principles were inadequate and constitute a material weakness in the design of internal control over financial reporting.

Because of the material weakness described above, management concluded that, as of December 29, 2007, our internal control over financial reporting was not effective based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our independent registered public accounting firm that audited our consolidated financial statements included in this Form 10-K, Deloitte & Touche LLP, has issued an attestation report on our internal control over financial reporting. This report appears below.

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

As noted in *Management's Report on Internal Control Over Financial Reporting* above, management has concluded that we lacked sufficient technical accounting personnel possessing competencies commensurate with our financial reporting requirements, which constitutes a material weakness in our internal control over financial reporting. In response to this condition, first noted in 2004, we have recruited additional experienced accounting professionals and increased the levels of training for our accounting staff. We are evaluating the effectiveness of the steps taken and the need for additional resources. We anticipate that we will report that this material weakness described above continues to exist

in each of our fiscal year 2008 Quarterly Reports on Form 10-Q.

Changes in Internal Control Over Financial Reporting

Except for changes made to our internal controls, as discussed herein, in preparation for our management report on internal control over financial reporting, particularly additional controls over our issuance of stock-based awards, which included the implementation of policies and procedures which are designed to ensure all required actions are completed on the grant date of an equity award, no significant changes were made to our internal controls during our most recent quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Kopin Corporation

Taunton, Massachusetts

We have audited Kopin Corporation and subsidiaries (the Company) internal control over financial reporting as of December 29, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment:

Inadequate resources and technical accounting expertise. The Company's resources and level of technical accounting expertise within the accounting function are insufficient to properly evaluate and account for non-routine or complex transactions. Consequently, the Company's controls over the selection and application of accounting policies in accordance with generally accepted accounting principles are inadequate and constitute a material weakness in the design of internal control over financial reporting.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the year ended December 29, 2007 of the Company and this report does not affect our report on such financial statements and financial statement schedule.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 29, 2007, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 29, 2007, of the Company and our report dated March 31, 2008 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts

March 31, 2008

Item 9B.

None

Part III

Item 10. *Directors and Executive Officers of the Registrant*

(a) *Directors.* The information with respect to directors required by this item is incorporated herein by reference from our Proxy Statement relating to our Annual Meeting of Shareholders to be held on April 29, 2008 (the Proxy Statement).

(b) *Executive Officers.* Information with respect to executive officers required by this item is set forth in Part I of this Report and is also incorporated herein by reference from the Proxy Statement.

(c) *Reports of Beneficial Ownership.* The information with respect to reports of beneficial ownership required by this item is incorporated herein by reference from the Proxy Statement.

(d) *Code of Ethics.* We have adopted a Code of Business Conduct and Ethics (the Code) that applies to all of our employees (including our CEO and CFO) and directors. The Code is available on our website at www.kopin.com. We intend to satisfy the disclosure requirement regarding any amendment to or waiver of a provision of the Code applicable to any executive officer or director, by posting such information on such website.

Our corporate governance guidelines, whistleblower policy and the charters of the audit committee, compensation committee and nominating and corporate governance committee of the Board of Directors as well as other corporate governance document materials are available on our website at www.kopin.com.

Item 11. *Executive Compensation*

The information required under this item is incorporated herein by reference from the Proxy Statement.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

The information required by this item is incorporated herein by reference from the Proxy Statement. Refer also to the equity compensation plan information set forth in Item 5 herein.

Item 13. *Certain Relationships and Related Transactions*

Edgar Filing: KOPIN CORP - Form 10-K

The information required by this item is incorporated herein by reference from the Proxy Statement.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is incorporated herein by reference from the Proxy Statement.

Item 15. *Exhibits and Financial Statement Schedules*

(a) Documents filed as part of the Report:

(1) Consolidated Financial Statements:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	52
<u>Consolidated Balance Sheets</u>	53
<u>Consolidated Statements of Operations</u>	54
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	54
<u>Consolidated Statements of Stockholders' Equity</u>	55
<u>Consolidated Statements of Cash Flows</u>	56
<u>Notes to Consolidated Financial Statements</u>	57

(2) *Financial Statement Schedule:*

Schedule II Valuation and Qualifying Accounts

Schedules other than the one listed above have been omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements or the notes thereto.

(3) *Exhibits*

3.1	Amended and Restated Certificate of Incorporation	(2)
3.2	Amendment to Certificate of Incorporation	(7)
3.3	Amendment to Certificate of Incorporation	(7)
3.4	Third Amended and Restated By-laws	(10)
4	Specimen Certificate of Common Stock	(1)
10.1	Form of Employee Agreement with Respect to Inventions and Proprietary Information	(1)
10.2	1985 Incentive Stock Option Plan, as amended	(1)*
10.3	Amended and Restated 1992 Stock Option Plan	(2)*
10.4	1992 Stock Option Plan Amendment	(7)*
10.5	1992 Stock Option Plan Amendment	(8)*
10.6	Kopin Corporation 2001 Equity Incentive Plan	(9)*
10.7	Kopin Corporation 2001 Equity Incentive Plan Amendment	(12)*
10.8	Kopin Corporation 2001 Equity Incentive Plan Amendment	(13)*
10.9	Kopin Corporation 2001 Equity Incentive Plan Amendment	(14)*
10.10	Kopin Corporation 2001 Supplemental Equity Incentive Plan	(8)*
10.11	Form of Key Employee Stock Purchase Agreement	(1)*
10.12	License Agreement by and between the Company and Massachusetts Institute of Technology dated April 22, 1985, as amended	(1)
10.13	Facility Lease, by and between the Company and Massachusetts Technology Park Corporation, dated October 15, 1993	(3)
10.14	Master Sublease Purchase Agreement, by and between the Company and Massachusetts Industrial Finance Agency, dated June 23, 1994	(4)
10.15	Contract by and between the Company and the United States Department of Commerce, dated April 25, 1995	(5)
10.16	Cooperative Research and Development Agreement, by and between the Company and Massachusetts Institute of Technology Lincoln Laboratory, dated June 21, 1995 (confidential portions on file with the Commission)	(5)
10.17	Letter Agreement, by and between the Company and United Microelectronics Corporation, dated November 29, 1995 (confidential portions on file with the Commission)	(5)
10.18	Joint Venture Agreement, by and among the Company, Kowon Technology Co., Ltd., and Korean Investors, dated as of March 3, 1998	(6)
10.19	Fifth Amended and Restated Employment Agreement between the Company and Dr. John C.C. Fan, dated as of February 20, 2004	(11)*
10.20	Kopin Corporation Fiscal Year 2005 Cash Bonus Plan	(15)*

Edgar Filing: KOPIN CORP - Form 10-K

10.21	Joint Venture Agreement for Kopin Corporation, Bright LED and KTC, dated November 12, 2004	(15)
10.22	Kopin Corporation Form of Stock Option Agreement under 2001 Equity Incentive Plan	(15)*
10.23	Kopin Corporation 2001 Equity Incentive Plan Form of Restricted Stock Purchase Agreement	(15)*
10.24	Kopin Corporation Fiscal Year 2006 Cash Bonus Plan	*
21.1	Subsidiaries of Kopin Corporation	
23.1	Consent of Independent Registered Public Accounting Firm	
31.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
31.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

* Management contract or compensatory plan required to be filed as an Exhibit to this Form 10-K.

- (1) Filed as an exhibit to Registration Statement on Form S-1, File No. 33-45853, and incorporated herein by reference.
- (2) Filed as an exhibit to Registration Statement on Form S-1, File No. 33-57450, and incorporated herein by reference.
- (3) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 1993 and incorporated herein by reference.
- (4) Filed as an exhibit to Quarterly Report on Form 10-Q for the quarterly period ended July 2, 1994 and incorporated herein by reference.
- (5) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference.
- (6) Filed as an exhibit to Annual Report on Form 10-Q for the quarterly period ended June 27, 1998 and incorporated herein by reference.
- (7) Filed as an exhibit to Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000 and incorporated herein by reference.
- (8) Filed as an exhibit to Registration Statement on Form S-8 and incorporated herein by reference.
- (9) Filed as an appendix to Proxy Statement filed on April 20, 2001 and incorporated herein by reference.
- (10) Filed as an exhibit to Current Report on Form 8-K filed on October 9, 2007 and incorporated herein by reference.
- (11) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and incorporated herein by reference.
- (12) Filed as an exhibit to Registration Statement on Form S-8 filed on August 16, 2002 and incorporated herein by reference.
- (13) Filed as an exhibit to Registration Statement on Form S-8 filed on March 15, 2004 and incorporated herein by reference.
- (14) Filed as an exhibit to Registration Statement on Form S-8 filed on May 10, 2004 and incorporated herein by reference.
- (15) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 25, 2004 and incorporated herein by reference.

KOPIN CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	52
<u>Consolidated Balance Sheets at December 29, 2007 and December 30, 2006</u>	53
<u>Consolidated Statements of Operations for the years ended December 29, 2007, December 30, 2006 and December 31, 2005</u>	54
<u>Consolidated Statements of Comprehensive Income (Loss) for the years ended December 29, 2007, December 30, 2006 and December 31, 2005</u>	54
<u>Consolidated Statements of Stockholders' Equity for the years ended December 29, 2007, December 30, 2006 and December 31, 2005</u>	55
<u>Consolidated Statements of Cash Flows for the years ended December 29, 2007, December 30, 2006 and December 31, 2005</u>	56
<u>Notes to Consolidated Financial Statements</u>	57

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Kopin Corporation

Taunton, Massachusetts

We have audited the accompanying consolidated balance sheets of Kopin Corporation and subsidiaries (the Company) as of December 29, 2007 and December 30, 2006, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 29, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a) (2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Kopin Corporation and subsidiaries as of December 29, 2007 and December 30, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2005, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" an interpretation of FASB Statement No. 143.

As discussed in Note 1 to the consolidated financial statements, in 2006, the Company changed its method of accounting for stock-based compensation as required by Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment".

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 29, 2007, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2008 expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts

March 31, 2008

KOPIN CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 29, 2007	December 30, 2006
ASSETS		
Current assets:		
Cash and equivalents	\$ 30,748,060	\$ 27,907,656
Marketable securities, at fair value	62,556,257	77,452,635
Accounts receivable, net of allowance of \$708,000 and \$228,000 in 2007 and 2006	10,600,794	9,691,937
Accounts receivable from unconsolidated affiliates	3,621,463	1,461,118
Unbilled receivables	905,151	830,594
Inventory	16,732,060	11,848,499
Prepaid taxes	874,807	799,336
Prepaid expenses and other current assets	1,107,151	1,345,658
Total current assets	127,145,743	131,337,433
Property, plant and equipment	21,927,061	17,354,527
Other assets	11,981,173	12,721,358
Total assets	\$ 161,053,977	\$ 161,413,318
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 10,295,340	\$ 7,688,865
Accounts payable to unconsolidated affiliates	2,084,491	616,194
Accrued payroll and expenses	2,926,176	2,102,447
Accrued warranty	1,030,000	1,030,000
Billings in excess of revenue earned	173,851	159,267
Other accrued liabilities and professional fees	2,704,544	3,621,727
Total current liabilities	19,214,402	15,218,500
Asset retirement obligations	805,797	772,197
Minority interest in subsidiary	3,549,369	4,457,724
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 71,935,976 shares in 2007 and 71,926,641 shares in 2006; outstanding 67,741,956 in 2007 and 67,427,911 in 2006	713,574	710,434
Additional paid-in capital	307,900,357	305,650,043
Treasury stock (3,615,480 shares in 2007 and 2006, at cost)	(14,552,865)	(14,552,865)
Accumulated other comprehensive income	3,767,256	2,945,098
Accumulated deficit	(160,343,913)	(153,787,813)
Total stockholders' equity	137,484,409	140,964,897
Total liabilities and stockholders' equity	\$ 161,053,977	\$ 161,413,318

KOPIN CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal year ended	2007	2006	2005
Revenues:			
Net product revenues	\$ 94,191,465	\$ 65,902,228	\$ 85,247,294
Research and development revenues	3,957,648	5,189,128	5,049,003
	98,149,113	71,091,356	90,296,297
Expenses:			
Cost of product revenues	78,624,626	49,292,767	54,970,647
Research and development-funded programs	3,157,452	4,907,836	6,497,764
Research and development-internal	8,300,285	5,340,686	5,766,127
Selling, general, and administration	18,008,967	19,317,791	14,114,018
Impairment charge			517,902
	108,091,330	78,859,080	81,866,458
(Loss) income from operations	(9,942,217)	(7,767,724)	8,429,839
Other income and expense:			
Interest income	4,450,623	4,785,987	3,595,506
Other income	85,317	468,498	75,705
Other-than-temporary impairment of Micrel common stock	(123,253)		
Gains on sale of Micrel common stock		1,208,000	
Foreign currency transaction gains (losses)	93,347	(773,203)	(225,700)
Interest and other expense	(68,007)	(56,664)	(121,674)
	4,438,027	5,632,618	3,323,837
(Loss) income before income taxes, minority interest in loss (income) of subsidiary, equity loss in unconsolidated affiliate and cumulative effect of accounting change	(5,504,190)	(2,135,106)	11,753,676
Tax (provision) benefit	(465,000)	273,000	(162,000)
(Loss) income before income taxes, equity loss in unconsolidated affiliate and cumulative effect of accounting change	(5,969,190)	(1,862,106)	11,591,676
Minority interest in loss (income) of subsidiary	(312,333)	306,543	(434,962)
Equity loss in unconsolidated affiliate	(274,577)	(593,911)	(209,304)
(Loss) income before cumulative effect of accounting change	(6,556,100)	(2,149,474)	10,947,410
Cumulative effect of accounting change			(443,000)
Net (loss) income	\$ (6,556,100)	\$ (2,149,474)	\$ 10,504,410
(Loss) income before cumulative effect of accounting change per share:			
Basic	\$ (0.10)	\$ (0.03)	\$ 0.16
Diluted	\$ (0.10)	\$ (0.03)	\$ 0.16
Cumulative effect of accounting change per share			
Basic	\$	\$	\$ (0.01)
Diluted	\$	\$	\$ (0.01)
Net (loss) income per share			
Basic	\$ (0.10)	\$ (0.03)	\$ 0.15

Edgar Filing: KOPIN CORP - Form 10-K

Diluted	\$	(0.10)	\$	(0.03)	\$	0.15
Weighted average number of common shares outstanding:						
Basic		67,543,957		68,064,262		69,333,508
Diluted		67,543,957		68,064,262		69,879,183

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Fiscal years ended	2007	2006	2005
Net (loss) income	\$ (6,556,100)	\$ (2,149,474)	\$ 10,504,410
Foreign currency translation adjustments	289,826	1,164,486	333,960
Holding gain (loss) on marketable securities	679,702	74,964	(571,430)
Reclassifications of gains in net loss	(147,370)	(416,593)	(11,256)
Comprehensive (loss) income	\$ (5,733,942)	\$ (1,326,617)	\$ 10,255,684

KOPIN CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock		Additional Paid-in Capital	Deferred Compensation	Treasury Stock	Accumulated Other Comprehensive Income		Accumulated Deficit	Total
	Shares	Amount							
Balance, December 26, 2004	70,130,615	\$ 701,306	\$ 300,989,698	\$ (1,829,192)	\$ (671,235)	\$ 2,370,967	\$ (162,142,749)	\$ 139,418,795	
Exercise of stock options	514,727	5,147	1,276,299					1,281,446	
Issuance of restricted stock	607,500	6,075	2,928,965	(2,935,040)					
Stock-based compensation expense (As Restated)			17,466	2,029,658				2,047,124	
Forfeiture of unvested restricted stock	(9,625)	(96)	(45,430)	45,526					
Net unrealized holding loss on marketable securities						(582,686)		(582,686)	
Foreign currency translation adjustments						333,960		333,960	
Restricted stock for tax withholding obligations	(8,181)	(82)			(57,628)			(57,710)	
Treasury stock purchases					(6,670,005)			(6,670,005)	
Net income							10,504,410	10,504,410	
Balance, December 31, 2005	71,235,036	\$ 712,350	\$ 305,166,998	\$ (2,689,048)	\$ (7,398,868)	\$ 2,122,241	\$ (151,638,339)	\$ 146,275,334	
Exercise of stock options	161,925	1,619	518,828					520,447	
Change in accounting for stock compensation	(286,500)	(2,865)	(2,686,183)	2,689,048					
Stock based compensation expense			2,789,658					2,789,658	
Forfeiture of nonvested stock	(26,750)	(267)	267						
Net unrealized holding loss on marketable securities						(341,629)		(341,629)	
Foreign currency translation adjustments						1,164,486		1,164,486	
Restricted stock for tax withholding obligations	(40,320)	(403)	(139,525)		(220,098)			(360,026)	
Treasury stock purchase					(6,933,899)			(6,933,899)	
Net loss							(2,149,474)	(2,149,474)	
Balance, December 30, 2006	71,043,391	\$ 710,434	\$ 305,650,043	\$	\$ (14,552,865)	\$ 2,945,098	\$ (153,787,813)	\$ 140,964,897	
Exercise of stock options	95,849	958	278,920					279,878	
Stock based compensation expense			2,254,556					2,254,556	
Vesting of restricted stock	301,313	3,013	(3,013)						
Net unrealized holding gain on marketable securities						532,332		532,332	
Foreign currency translation adjustments						289,826		289,826	
Restricted stock for tax withholding obligations	(83,089)	(831)	(280,149)					(280,980)	
Net loss							(6,556,100)	(6,556,100)	
Balance, December 29, 2007	71,357,464	\$ 713,574	\$ 307,900,357	\$	\$ (14,552,865)	\$ 3,767,256	\$ (160,343,913)	\$ 137,484,409	

KOPIN CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal year ended	2007	2006	2005
Cash flows from operating activities:			
Net (loss) income	\$ (6,556,100)	\$ (2,149,474)	\$ 10,504,410
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation	3,457,020	2,623,283	3,877,938
Amortization (accretion) of premium or discount on marketable debt securities	225,773	236,076	201,632
Loss on disposal of equipment	453,050		
Stock-based compensation	2,254,557	2,789,658	2,047,124
Minority interest in (losses) income of subsidiary	312,333	(306,543)	434,962
Net loss (gain) on investment transactions	123,253	(1,208,000)	68,111
Loss in unconsolidated affiliate	274,577	593,911	209,304
Impairment charge			517,902
Change in allowance for bad debt	480,000	(53,000)	(70,000)
Change in other non-cash items		(446,094)	(580,000)
Cumulative effect of accounting change			443,000
Changes in assets and liabilities:			
Accounts receivable	(3,641,220)	964,085	(3,741,651)
Inventory	(4,880,725)	(2,235,270)	(1,382,811)
Deferred tax asset		370,000	(122,000)
Prepaid expenses and other current assets	163,398	232,400	(1,034,631)
Accounts payable and accrued expenses	3,188,902	399,812	3,088,266
Billings in excess of revenue earned	14,584	(921,543)	(159,537)
Net cash (used in) provided by operating activities	(4,130,600)	889,301	14,302,019
Cash flows from investing activities:			
Proceeds from sale of marketable securities	32,020,156	43,449,627	29,039,232
Purchase of marketable securities	(16,451,503)	(32,538,083)	(24,317,516)
Other assets	(23,325)	47,189	(59,912)
Proceeds from sale of equipment			6,000,000
Proceeds from sale of investments		3,002,000	
Proceeds from insurance		33,000	
Investment in Kowon	(980,118)		
Investments in equity and cost basis affiliates		(4,952,063)	(3,000,000)
Capital expenditures	(7,637,451)	(7,867,729)	(3,107,423)
Net cash provided by investing activities	6,927,759	1,173,941	4,554,381
Cash flows from financing activities:			
Treasury stock purchases		(6,933,899)	(6,670,005)
Settlements of restricted stock for tax withholding obligations	(280,980)	(360,023)	(57,710)
Proceeds from exercise of stock options	279,878	520,446	1,281,446
Net cash used in financing activities	(1,102)	(6,773,476)	(5,446,269)
Effect of exchange rate changes on cash	44,347	1,115,245	276,019
Net increase (decrease) in cash and equivalents	2,840,404	(3,594,989)	13,686,150
Cash and equivalents:			

Edgar Filing: KOPIN CORP - Form 10-K

Beginning of period	27,907,656	31,502,645	17,816,495
End of period	\$ 30,748,060	\$ 27,907,656	\$ 31,502,645
Supplemental disclosure of cash flow information:			
Income taxes paid	\$ 93,000	\$ 834,000	\$ 28,000
Supplemental schedule of noncash investing activities:			
Construction in progress included in accrued expenses	\$ 810,469	\$ 602,892	\$

See notes to consolidated financial statements.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year

The Company's fiscal year ends on the last Saturday in December. The fiscal year ended December 31, 2005 includes 53 weeks and the fiscal years ended December 29, 2007 and December 30, 2006 each include 52 weeks. The fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005 are referred to as fiscal years 2007, 2006 and 2005, respectively, herein.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and Kowon Technology Co., Ltd. (Kowon), a majority owned (78%) subsidiary located in Korea. All inter-company transactions and balances have been eliminated. The minority interest in earnings of Kowon is reflected separately in the consolidated statements of operations. Investment in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies (generally 20-50 percent ownership interest in common stock), are accounted for by the equity method. Other investments are accounted for by the cost method.

Revenue Recognition

The Company recognizes revenue in accordance with Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). SAB 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred and services rendered; (3) the price to the buyer is fixed or determinable; and (4) collectibility is reasonably assured. The Company does not recognize revenue for products prior to customer acceptance unless it believes the product meets all customer specifications and the Company has a history of consistently achieving customer acceptance of the product. Provisions for product returns and allowances are recorded in the same period as the related revenues. The Company analyzes historical returns, current economic trends and changes in customer demand and acceptance of product when evaluating the adequacy of sales returns and other allowances. Certain product sales are made to distributors under agreements allowing for a limited right of return on unsold products. Sales to distributors are primarily made for sales to the distributor's customers and not for their stocking of inventory. The Company delays revenue recognition for its estimate of distributor claims of right of return on unsold products based upon its historical experience with the Company's products and specific analysis of amounts subject to return based upon discussions with the Company's distributors or their customers.

Edgar Filing: KOPIN CORP - Form 10-K

The Company recognizes revenues from long-term research and development contracts on the percentage-of-completion method of accounting as work is performed, based upon the ratio of costs or hours already incurred to the estimated total cost of completion or hours of work to be performed. Revenue recognized at any point in time is limited to amounts earned under milestones included in contracts, if such provisions exist. The Company accounts for product development and research contracts that have established prices for distinct phases as if each phase were a separate contract. The Company classifies amounts earned on contracts in

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

progress that are in excess of amounts billed as unbilled receivables and amounts received in excess of amounts earned as billings in excess of revenues earned. The Company invoices based on dates specified in the related agreement or in periodic installments based upon our invoicing cycle. Amounts for estimated losses on contracts are recorded when known.

Research and Development Costs

Research and development expenses are incurred in support of internal display and III-V product development programs or programs funded by agencies of the U.S. government, the KoBrite joint venture and commercial partners. Research and development costs include staffing, purchases of materials and laboratory supplies, circuit design costs, fabrication and packaging of experimental display products, and overhead, and are expensed immediately.

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 securities consist primarily of commercial paper, medium-term corporate notes, and United States government and agency backed securities. The Company classifies marketable securities included in *Marketable Securities* and the investment in Micrel in *Other Assets* as available-for-sale and accordingly carries them at fair value. Fair value is based upon quoted market prices of the securities. From time to time, the Company uses the funds from matured marketable securities for working capital, capital expenditure and investment purposes. The net unrealized holding losses, recorded in accumulated other comprehensive income, for available-for-sale marketable debt securities at December 29, 2007, December 30, 2006 and December 31, 2005, were \$(201,716), \$(1,099,762) and \$(1,445,796), respectively. The Company records the amortization of premium and accretion of discounts on marketable debt securities in the results of operations.

Investments in available-for-sale marketable debt securities are as follows at December 29, 2007 and December 30, 2006:

	Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	
	2007	2006	2007	2006	2007	2006	2007	2006
U.S. government and agency backed securities	\$ 41,438,125	\$ 63,883,963	\$ 76,620	\$	\$	\$ 1,140,921	\$ 41,514,745	\$ 62,743,042
Corporate debt	21,319,847	14,668,434		41,159	278,335		21,041,512	14,709,593
Total	\$ 62,757,972	\$ 78,552,397	\$ 76,620	\$ 41,159	\$ 278,335	\$ 1,140,921	\$ 62,556,257	\$ 77,452,635

The contractual maturity of the Company's marketable debt securities is as follows at December 29, 2007:

Edgar Filing: KOPIN CORP - Form 10-K

	Less than One year	One to Five years	Greater than Five years	Total
U.S. government and agency backed securities	\$ 17,621,955	\$ 16,975,620	\$ 6,917,170	\$ 41,514,745
Corporate debt	2,915,250	4,777,500	13,348,762	21,041,512
Total	\$ 20,537,205	\$ 21,753,120	\$ 20,265,932	\$ 62,556,257

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The gross gains and losses realized related to sales of marketable debt securities were not material during fiscal years 2007, 2006 and 2005. The Company uses the specific identification method as a basis for determining cost and calculating realized gains and losses. Included within the category U.S. government and agency backed securities and corporate debt is \$24,884,306 and \$2,904,752, respectively, of securities (at cost) which had unrealized losses of \$97,443 and \$16,102, respectively at December 29, 2007 and whose cost basis exceed their fair market value for at least 12 consecutive months. Unrealized losses from fixed income securities are primarily attributable to changes in interest rates.

Inventory

Inventory is stated at the lower of cost (determined on the first-in, first-out or specific identification method) or market and consists of the following at December 29, 2007 and December 30, 2006:

	2007	2006
Raw materials	\$ 9,463,478	\$ 7,382,472
Work-in-process	3,447,661	1,780,408
Finished goods	3,820,921	2,685,619
	\$ 16,732,060	\$ 11,848,499

Inventory on consignment was \$3.7 million and \$2.0 million at December 29, 2007 and December 30, 2006, respectively.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, generally 3 to 10 years. Leasehold improvements and leased equipment are amortized over the shorter of the term of the lease or the useful life of the improvement or equipment. As discussed below, obligations for asset retirement obligations are accrued at the time property, plant and equipment is initially purchased or as such obligations are generated from use.

Product Warranty

The Company generally sells products with a limited warranty of product quality and a limited indemnification of customers against intellectual property infringement claims related to the Company's products. The Company accrues for known warranty and indemnification issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified issues based on historical activity. As of December 29, 2007 and December 30, 2006, the Company had a warranty reserve of \$1.0 million. For the fiscal years 2007, 2006 and 2005 its

warranty expense was approximately \$0.6 million, \$0.4 million and \$0.8 million, respectively.

Asset Retirement Obligations

The Company recorded assets and asset retirement obligations (ARO) liabilities of \$0.8 million at December 29, 2007, which represents the legal obligations associated with retirement of their assets when the timing and/or method of settling the obligation are conditional on a future event that may or may not be within the control of the Company. The Company also recorded an accumulated depreciation charge of \$0.5 million and \$0.4 million, at December 29, 2007 and December 30, 2006, respectively, which represents the cumulative amortization of the capitalized long-lived asset associated with this obligation. The Company estimated the ARO

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

using a discounted cash flow model that considered the Company's cost of capital as well as increases in costs prior to settlement of the obligations and considered the probability that performance would be required.

	2007
Beginning balance as of December 31, 2006	\$ 772,197
Additions liabilities incurred	
Payment to settle liabilities	
Accretion	33,600
Ending balance as of December 29, 2007	\$ 805,797

Income Taxes

The consolidated financial statements reflect provisions for federal, state, local and foreign income taxes. The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss and tax credit carryforwards. The Company measures deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company provides valuation allowances if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in an interpretation of FASB Statement No. 109, Accounting for Income Taxes* (FIN 48). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement with the tax authorities. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

There was no impact upon the adoption of FIN 48 on December 31, 2006. There are no known tax positions which are reasonably possible to change over the next twelve months necessitating a significant change in our unrecognized tax benefits.

The Company recognized interest and penalties related to unrecognized tax benefits in income tax expense in the consolidated statements of operations.

Foreign Currency

Assets and liabilities of non-U.S. operations where the functional currency is something other than the U.S. dollar, are translated from the functional currency into U.S. dollars at year end exchange rates, and revenues and expenses at average rates prevailing during the year. Resulting translation adjustments are accumulated as part of accumulated other comprehensive income. Transaction gains or losses are recognized in income or loss in the period in which they occur.

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*Net Income (Loss) Per Share*

Basic net income (loss) per share is computed using the weighted average number of shares of common stock outstanding during the period less any unvested restricted shares. Diluted earnings per common share 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 unvested restricted stock units.

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

	2007	2006	2005
Weighted average common shares outstanding basic	67,543,957	68,064,262	69,333,508
Stock options and nonvested restricted common stock			545,675
Weighted average common shares outstanding diluted	67,543,957	68,064,262	69,879,183

The following were not included in weighted average common shares outstanding- diluted because they are anti-dilutive.

	2007	2006	2005
Nonvested restricted common stock	578,512	883,250	
Stock options	6,858,322	8,229,749	4,969,786
Total	7,436,834	9,112,999	4,969,786

Concentration of Credit Risk

The Company primarily invests its excess cash in government backed and corporate financial instruments management believes to be of high credit worthiness, which bear lower levels of relative credit risk. The Company sells its products to customers worldwide and generally does not require collateral. The Company maintains a reserve for potential credit losses.

Fair Value of Financial Instruments

Edgar Filing: KOPIN CORP - Form 10-K

Financial instruments consist of current assets (except inventories, income tax receivables and prepaid assets) and certain current liabilities. Current assets and current liabilities are carried at cost, which approximates fair value.

Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for its equity-based compensation plans under the recognition and measurement provision of APB Opinion No. 25, (APB 25) *Accounting for Stock Issued to Employees* and related Interpretations, as permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), (SFAS 123R) *Share-Based Payment* using the modified prospective application transition method. Under this transition method, compensation cost recognized includes compensation costs for all share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and compensation cost for all share-based payments granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Accordingly, prior period amounts have not been restated.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In November 2005, the FASB issued FASB Staff Position (FSP) FAS 123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards* (FAS 123R-3). Effective upon issuance, this FSP describes an alternative transition method for calculating the tax effects of stock-based compensation to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and the statement of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123R. During the year ended December 30, 2006, the Company elected the Long method, as defined in the FAS 123R-3. In addition, in accordance with SFAS No. 123R, SFAS No. 109 and EITF Topic D-32, *Intraperiod Tax Allocation of the Tax Effect of Pretax Income from Continuing Operations*, the Company has elected to recognize excess income tax benefits from stock option exercises in additional paid-in capital only if an incremental income tax benefit would be realized after considering all other tax attributes presently available to the Company. The Company measures the tax benefit associated with excess tax deductions related to stock-based compensation expense by multiplying the excess tax deductions by the statutory tax rates.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model using the assumptions noted in the following table. These assumptions are highly subjective and require the exercise of management judgment. Management must also apply judgment in developing an estimate of awards that may be forfeited. If the actual experience differs significantly from the estimates and the Company chooses to employ different assumptions in the future, the stock-based compensation expense that the Company records in future periods may differ materially from that recorded in the current period. Expected volatility is based on historical volatility of the Company's common stock. The Company uses historical data to estimate option exercises and employee terminations used in the model; separate groups of employees who have similar historical exercise behavior are considered separately. The expected term of options granted is derived based on historical exercise patterns and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option-pricing model with the following assumptions used for grants in fiscal year 2005. There were no grants of stock options in fiscal year 2007 and 2006.

	Fiscal Year 2005
Dividend yields	0%
Expected volatility	98.02%
Risk free interest rates	4.35%
Expected lives in years	6

As a result of adopting SFAS 123R, the Company's income before provision for income taxes and net income for the fiscal years ended December 29, 2007 and December 30, 2006 is approximately \$.9 million and \$1.8 million, respectively, lower than if the Company had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for fiscal year 2007 and 2006 would have been \$.01 and \$.02, respectively, higher if the Company had not adopted SFAS 123R, and continued to account for stock awards under APB 25.

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table illustrates the effect on the net income and net income per share had we used the fair-value recognition provisions of SFAS No. 123, and its amendment to measure employee stock compensation in fiscal 2005.

	Fiscal Year 2005
Net income, as reported	\$ 10,504,410
Add: Compensation expense included in net income, as reported	2,047,124
Less: Total stock-based employee compensation expense determined under fair-value based method for all awards	(4,167,443)
Pro forma net income	\$ 8,384,091
Net income per share:	
Basic, as reported	\$ 0.15
Basic, pro forma	\$ 0.12
Diluted, as reported	\$ 0.15
Diluted, pro forma	\$ 0.12

Deferred Compensation

Deferred compensation is related to compensatory common stock awards under the Company's 1992 Stock Option Plan and its 2001 Equity Incentive Plan and is amortized over vesting periods ranging from two to four years. For awards that contain terms that accelerate vesting, the Company recognizes the cost when it is probable that such conditions will be met. On January 1, 2006, upon adoption of SFAS 123R, deferred compensation was reclassified into additional paid-in-capital.

Comprehensive Income

Comprehensive income (loss) is the total of net income (loss) and all other non-owner changes in equity including such items as unrealized holding gains (losses) on marketable equity and debt securities classified as available-for-sale and foreign currency translation adjustments.

The components of accumulated other comprehensive income are as follows:

Edgar Filing: KOPIN CORP - Form 10-K

	Cumulative Translation Adjustment	Unrealized Holding Gain (Loss) on Marketable Securities	Accumulated Other Comprehensive Income
Balance as of December 25, 2004	\$ 2,180,700	\$ 190,267	\$ 2,370,967
Changes during year	333,960	(582,686)	(248,726)
Balance as of December 31, 2005	2,514,660	(392,419)	2,122,241
Changes during year	1,164,486	(341,629)	822,857
Balance as of December 30, 2006	3,679,146	(734,048)	2,945,098
Changes during year	289,826	532,332	822,158
Balance as of December 29, 2007	\$ 3,968,972	\$ (201,716)	\$ 3,767,256

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Impairment Charge

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company periodically reviews the carrying value of our long-lived assets to determine if facts and circumstances suggest that they may be impaired or that the amortization or depreciation period may need to be changed. The carrying value of a long-lived asset is considered impaired when the anticipated identifiable undiscounted cash flows from such asset are less than its carrying value. For assets that are to be held and used, impairment is measured based upon the amount by which the carrying amount of the asset exceeds its fair value. The carrying value of the Company's long-lived assets was \$21.9 million at December 29, 2007.

Accounting Pronouncements to be Adopted

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which enhances existing guidance for measuring assets and liabilities at fair value. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS No. 157 is effective for the Company's fiscal year beginning December 30, 2008. The Company is currently assessing the impact, if any, that SFAS No. 157 will have on the results of its operations, financial position or cash flows.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 provides specific guidance on disclosures for companies who elect not to restate prior periods for misstatements and instead elect to record a cumulative-effect adjustment. The Company applied the provisions of SAB 108 in the quarter ended March 31, 2007. The application of SAB 108 had no impact on the Company's consolidated results of operations or financial condition.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits an entity to choose, at specified election dates, to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods with those financial years. At the effective date, an entity may elect the fair value option for eligible items that exist at that date. The entity shall report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. The Company did not elect the fair value option for any of its eligible items as of December 30, 2007.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for the Company on January 1, 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented.

Also in December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. SFAS No. 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. It requires acquisition-related costs and restructuring costs that the acquirer expects but is not obligated to incur to be recognized separately

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

from the acquisition. SFAS No. 141(R) modifies the criteria for the recognition of contingencies as of the acquisition date. It also provides guidance on subsequent accounting for acquired contingencies. SFAS No. 141(R) is effective for business acquisitions for which the acquisition date is on or after January 1, 2009. The Company may not apply it before that date. SFAS 141(R) will not impact the Company's accounting for prior acquisitions.

2. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 29, 2007 and December 30, 2006:

	Useful Life	2007	2006
Land		\$ 1,027,585	\$ 1,024,340
Buildings	10 years	2,875,584	2,866,506
Equipment	3-5 years	36,050,507	28,388,300
Leasehold improvements	Life of the lease	11,957,334	10,887,450
Furniture and fixtures	3 years	328,317	323,377
Equipment under construction		6,241,137	6,950,124
		58,480,464	50,440,097
Accumulated depreciation and amortization		(36,553,403)	(33,085,570)
		\$ 21,927,061	\$ 17,354,527

In January 2006, there was a fire at the Kowon production plant that damaged certain inventories and facilities. The damages were minor and repaired immediately. All damaged property had been insured against accidents, and was covered. As such, an insurance claim was filed, and cash was collected from the insurance carrier in September 2006. A summary of amounts recorded in 2006 related to the insurance recovery, the write-offs recorded, and the costs incurred for the clean-up of the involuntary conversion is included below:

Insurance claims recovered	\$ 800,000
Book value of assets written off:	
Inventory	(281,000)
Property, Plant & Equipment	(33,000)
Expenditures for repairs of damaged properties	(260,000)
	(574,000)
Gains on insurance settlement	\$ 226,000

Edgar Filing: KOPIN CORP - Form 10-K

During fiscal 2007 the company recognized losses on disposal of equipment of \$453,000. During fiscal 2006, the Company recognized disposals of equipment with an original cost basis of \$4,200,000, which had \$0 net carrying value. Depreciation expense for the fiscal years 2007, 2006 and 2005 was approximately \$3,457,020, \$2,623,283 and \$3,877,938 respectively.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Other Assets and Amounts Due To/Due From Affiliates

Other assets consist of the following as of December 29, 2007 and December 30, 2006:

	2007	2006
Marketable Equity Security		
Micrel Inc.	\$ 1,689,171	\$ 2,178,142
Non-Marketable Equity Securities		
Equity Method Securities		
KTC		
KoBrite	3,896,567	4,171,144
Cost Method Securities		
Kenet	5,395,905	5,395,905
AWSC	774,588	774,588
Other	224,942	201,579
	\$ 11,981,173	\$ 12,721,358

Marketable Equity Security

As of December 29, 2007 and December 30, 2006, the Company held approximately 200,000 shares of Micrel common stock with an adjusted cost basis of approximately \$1,689,000 and \$1,812,000, respectively. The adjusted cost basis reflects a \$0.1 million charge to the statement of operations to reduce the carrying value to fair market value at December 29, 2007. This investment is considered to be an available for sale security and, accordingly, the investment is carried on the consolidated statement of financial position at fair market value and unrealized gains and losses resulting from the difference between its adjusted cost and fair market value are recorded in other comprehensive income. In the second quarter of 2006, the Company sold 200,000 shares of Micrel common stock for approximately \$3,002,000 and recognized a gain of approximately \$1.2 million, which is presented in the consolidated statement of operations.

Non-Marketable Securities Equity Method Investments

As of December 29, 2007, the Company has an approximate 40% interest in Kopin Taiwan Corp (KTC), which is accounted for using the equity method and had a carrying value of \$0. The Company is not responsible for providing additional financing to KTC. The Company recorded equity losses in KTC for previous years which brought our investment down to \$0. The Company has manufactured products for KTC to sell to its customers and KTC manufactures product for the Company to sell to its customers. In addition, the Company provides technical services to KTC and sells raw substrates to KTC. One of the Company's Directors is chairman of KTC and owns approximately 1% of the outstanding common stock of KTC.

In February 2005, the Company contributed its CyberLite LED technology, production know-how, and \$3.0 million to a joint venture, KoBrite, formed to manufacture and sell LEDs. For its contribution, the Company received a 23% interest in KoBrite. Unrelated investors contributed \$9.0 million. In the third quarter of 2006, KoBrite had an equity offering and the Company invested an additional approximately \$2.0 million in the KoBrite joint venture to retain its approximate proportional interest. Subsequent to its establishment, KoBrite entered into an agreement, which required it to pay the Company a total of \$7.5 million for the transfer of certain equipment and the performance of certain research and training activities.

The Company accounts for its ownership interest in KoBrite using the equity method. KoBrite's results are recorded one quarter in arrears. For the fiscal years 2007, 2006 and 2005 the Company recorded losses of \$274,577, \$593,911 and \$209,304, respectively, in equity loss in unconsolidated affiliate in the consolidated statement of operations.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Non-Marketable Securities Cost Method Investments

At December 29, 2007, the Company had a cost method investment in Kenet, Inc. with a carrying value of \$5,395,905. The Company made investments of \$2,500,000 in fiscal year 2006, \$1,274,272 in fiscal year 2004 and an aggregate investment of \$1,621,633 in fiscal years 2003 and 2002. Because (i) these investments were in preferred stock, (ii) the common stock interests in Kenet were substantive, and (iii) such investments totaled less than 18% of the total common and preferred equity of Kenet, the Company carries its investment in Kenet under the cost method as prescribed by APB 18 *The Equity Method of Accounting for Common Stock* and EITF 02-14 *Whether an Investor Should Apply the Equity Method of Accounting to Investments Other than Common Stock*. On January 30, 2008 Kopin and three other principal investors entered into a loan agreement with Kenet whereby each of the investors committed to loan Kenet up to \$1.0 million each through May 28, 2008. The loan agreement provides for interest at the rate of ten percent per annum and provides for the issuance of warrants to purchase Kenet's common stock. On January 30, 2008 Kenet borrowed \$1.2 million under the loan agreement of which \$0.3 million came from the Company. On March 24, 2008 Kenet borrowed \$1.6 million under the loan agreement of which \$0.4 million came from the Company. The Company's Chief Executive Officer is a founder and board member of this company and owns approximately 2%. Certain directors and an officer of the Company have also invested in this company and their ownership ranges from 0.1% to 1.0%.

At December 29, 2007 the Company had a \$774,588 investment in Advance Wireless Semiconductor Company (AWSC), which the Company accounts for on the cost basis. A director of the Company is a director of AWSC and several other directors and officers own amounts ranging from 0.1% to 0.5% of the outstanding stock of AWSC.

Amounts Due to and Due from Affiliates

The table below shows amounts owed to the Company (receivable), amounts due from the Company (payable), amounts sold by the Company (revenues), and amounts purchased by the Company (purchases) from the indicated affiliate.

Affiliate	2007		2006	
	Receivable	Payable	Receivable	Payable
KTC	\$ 1,935,000	\$ 2,084,000	\$ 478,000	\$ 616,000
AWSC	1,686,000		983,000	
Total	\$ 3,621,000	\$ 2,084,000	\$ 1,461,000	\$ 616,000

Affiliate	2007		2006		2005	
	Revenues	Purchases	Revenues	Purchases	Revenues	Purchases
KTC	\$ 3,000	\$ 4,490,000	\$ 39,000	\$ 1,844,000	\$ 302,000	\$ 2,751,000
KoBrite			850,000		650,000	
AWSC	7,341,000		10,065,000		6,695,000	
Total	\$ 7,344,000	\$ 4,490,000	\$ 10,954,000	\$ 1,844,000	\$ 7,647,000	\$ 2,751,000

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized financial information for KTC for the year ended December 31, and for KoBrite for the year ended September 30, is as follows:

	2007	2006	2005
Current assets	\$ 16,845,000	\$ 15,548,000	\$ 14,456,000
Non current assets	26,232,000	26,863,000	24,795,000
Current liabilities	8,896,000	6,839,000	4,043,000
Non current liabilities	615,000	1,227,000	2,832,000
Revenues	13,744,000	5,715,000	2,930,000
Margin income (loss)	1,007,000	(1,766,000)	(808,000)
Loss from operations	(1,602,000)	(6,018,000)	(3,990,000)
Net loss	\$ (1,900,000)	\$ (5,937,000)	\$ (3,819,000)

Certain officers and directors have invested in some of the Company's investee companies, including Micrel. The Company has a loan to a non-officer employee for approximately \$171,000 at December 29, 2007, which is due in 2008.

4. Stockholders' Equity and Stock-Based Compensation

The Company had an ongoing authorization, as amended, through 2006 from the Board of Directors to repurchase the Company's common stock in open market or negotiated transactions. As of December 30, 2006, the Company had repurchased 3,563,200 shares of its common stock for \$14,275,139.

The Company has stock-based awards outstanding under several plans. The Company's 1992 Stock Option Plan (the 1992 Plan), which expired on December 31, 2001, permitted the granting of both nonqualified stock options and incentive stock options and authorized 15,000,000 shares of common stock (including shares issued upon exercise of options granted pursuant to the Company's 1985 Stock Option Plan). In 2001, the Company adopted a 2001 Equity Incentive Plan (the Equity Plan) and a 2001 Supplemental Equity Plan (the Supplemental Plan). The Equity Plan was approved by shareholders and the Supplemental Plan was approved by the Board of Directors of the Company. The Equity Plan, as amended, permits the granting of both nonqualified and incentive stock options and restricted stock awards. The Equity Plan authorized 5,000,000 shares of common stock, which may be issued to employees, non-employees, and members of the Board of Directors (the Board). The Supplemental Plan authorized 1,300,000 shares of common stock, which may be issued to employees and only permits the issuance of nonqualified stock options and restricted common stock awards. The option price of incentive stock options shall not be less than 100% of the fair market value of the stock at the date of grant, or in the case of certain incentive stock options, at 110% of the fair market value at the time of the grant. Options must be exercised within a ten-year period or sooner if so specified within the option agreement. The term and vesting period for restricted stock awards and options granted under the Equity Plan and the Supplemental Plan are determined by the Board's compensation committee. Nonvested stock awards and the options granted generally vest over either two or four year service periods, although the vesting of some awards may accelerate if certain conditions are met.

At December 29, 2007, the Company has reserved approximately 1.4 million shares of common stock for issuance under the Company's stock award plans.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information about stock options outstanding and exercisable at December 29, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$ 0.01 \$ 3.55	346,078	3.11	\$ 3.21	283,578	2.03	\$ 3.15
\$ 3.75 \$ 4.97	1,389,357	5.01	4.48	1,322,839	4.86	4.52
\$ 5.00 \$ 9.95	1,508,167	4.66	6.07	1,475,917	4.61	6.09
\$10.00 \$13.00	1,581,320	1.49	11.35	1,556,320	1.39	11.37
\$14.31 \$44.88	2,033,400	0.66	22.51	2,033,400	.66	22.51
	6,858,322	2.74	\$ 11.69	6,672,054	2.59	\$ 11.89
Aggregate intrinsic value on December 29, 2007	\$ 20,980			\$ 20,980		

A summary of award activity under the stock option plans as of December 29, 2007 and changes during the twelve month period is as follows:

	2007	
	Shares	Weighted Average Exercise Price
Balance, beginning of year	8,229,749	\$ 10.69
Options granted		
Options forfeited/cancelled	(1,275,578)	5.83
Options exercised	(95,849)	2.92
Balance, end of year	6,858,322	\$ 11.69
Exercisable, end of year	6,672,054	

A summary of options vested and expected to vest at December 29, 2007 is as follows:

Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
--------	---------------------------------	---------------------------

Edgar Filing: KOPIN CORP - Form 10-K

Options vested at year end	6,672,054	\$ 11.89	\$ 20,980
Options expected to vest, at year end	185,682	4.73	
Options vested and expected to vest	6,857,736	\$ 11.70	\$ 20,980

The weighted-average fair value on the grant date was \$2.82 for 2005. No stock options were issued in 2007 or 2006. The intrinsic value of options exercised in 2007, 2006 and 2005 was approximately \$87,000, \$162,000 and \$1,025,000, respectively.

Cash received from option exercises under all share-based payment arrangements was approximately \$0.3 million and \$0.5 million for fiscal year 2007 and 2006, respectively. No tax benefits were realized during this period due to the existence of tax net operating loss carryforwards.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has issued shares of nonvested restricted common stock to certain employees. Each award requires the employee to fulfill certain obligations, including remaining employed by the Company for two or four years (the vesting period).

A summary of the activity for nonvested restricted common stock awards as of December 29, 2007 and changes during the twelve months then ended is presented below:

	Shares	Weighted Average Grant Fair Value
Balance December 31, 2006	883,250	\$ 4.07
Granted		
Forfeited	(3,425)	4.10
Vested	(301,313)	4.45
Balance, December 29, 2007	578,512	\$ 3.86

The following table summarizes stock-based compensation expense related to employee stock options and nonvested restricted common stock awards under SFAS123R for the fiscal year 2007 and 2006 (no tax benefits were recognized):

	2007	2006
Cost of product revenues	\$ 581,808	\$ 511,738
Research and development	244,599	294,702
Selling, general and administrative	1,428,150	1,983,218
Total	\$ 2,254,557	\$ 2,789,658

The total unrecognized compensation cost related to nonvested restricted common stock awards is expected to be recognized over a weighted average period of 3 years. The total unrecognized compensation cost is as follows at December 29, 2007 and December 30, 2006:

	2007	2006
Stock option awards	\$ 400,602	\$ 1,337,986
Nonvested restricted common stock awards	2,171,078	3,523,781
	\$ 2,571,680	\$ 4,861,767

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Concentrations of Risk

Financial instruments that potentially subject the Company to concentration of credit risk other than marketable securities consist principally of trade accounts receivable. Trade receivables are primarily derived from sales to manufacturers of consumer electronic devices and wireless components or military applications. Ongoing credit evaluations of customers' financial condition are performed and collateral, such as letters of credit, are generally not required. The following table depicts the customer's trade receivable balance as a percentage of gross trade receivables as of the end of the year indicated: (The symbol * indicates that the customer's accounts receivable balance was less than 10% of the Company's Gross Accounts Receivables):

Customer	Percent of Gross Accounts Receivable	
	2007	2006
Skyworks Solutions, Inc.	17%	21%
Advanced Wireless Semiconductor Co.	10	9
DRS	12	25
Kopin Taiwan Corp	11	*

Sales to significant non-affiliated customers, for fiscal years 2007, 2006 and 2005, as a percentage of total revenues were as follows: (The symbol * indicates that sales to that customer were less than 10% of the Company's total revenues.)

Customer	Sales as a Percent of Total Revenue		
	Fiscal Year		
	2007	2006	2005
Skyworks Solutions, Inc.	26%	36%	32%
Advanced Wireless Semiconductor Company	5	13	7
Military Customers	16	16	11
United States Government Funded Research and Development Contracts	4	7	6
Sanyo Electric Co, Ltd.	16	*	*
Samsung Electronics	*	*	15
Victor Company of Japan (JVC)	*	*	13

Skyworks Solutions, Inc. (Skyworks Solutions) also uses the foundry services of Advanced Wireless Semiconductor Company (AWSC) to process the Company's HBT transistor wafers on their behalf. In 2005, the Company began selling HBT transistor wafers directly to AWSC for eventual resale by AWSC to Skyworks Solutions. AWSC also purchases HBT transistor wafers from the Company for the processing and sale to other customers.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Income Taxes

The provision (benefit) for income taxes consists of the following for the fiscal years indicated:

	2007	Fiscal Year 2006	2005
Current			
Federal	\$	\$ 1,807,000	\$ 4,021,000
State	43,000	53,000	57,000
Foreign	422,000	(505,000)	470,000
Expiration of tax contingencies		(300,000)	(400,000)
Deferred			
Federal	(1,756,000)	(2,034,000)	(301,000)
State	(469,000)	(178,000)	(26,000)
Foreign	(10,000)	(5,000)	(122,000)
Tax credits		(102,000)	(300,000)
Change in valuation allowance	2,235,000	991,000	(3,237,000)
	\$ 465,000	\$ (273,000)	\$ 162,000

Net operating losses utilized in 2006 and 2005 to offset federal taxes were \$1,713,000 and \$3,864,000, respectively.

The actual income tax benefits reported from operations are different than those which would have been computed by applying the federal statutory tax rate to loss before income tax benefit. A reconciliation of income tax benefit as computed at the U.S. Federal statutory income tax rate to the provision for income tax benefit is as follows:

	2007	Fiscal Year 2006	2005
Tax benefit at U.S. statutory rates	\$ (1,926,000)	\$ (816,000)	\$ 4,120,000
State tax benefit	(441,000)		
Foreign tax rate difference	(259,000)	(263,000)	(332,000)
Nondeductible expenses	4,000	98,000	7,000
Expired net state operating loss carryforwards	990,000		
State tax rate change	(1,845,000)		
Reduction of credits	686,000		
Non-deductible equity compensation	1,021,000		
Expiration of Contingencies		(300,000)	(400,000)
Other, net		17,000	4,000
Change in valuation allowance	2,235,000	991,000	(3,237,000)

Edgar Filing: KOPIN CORP - Form 10-K

\$ 465,000 \$ (273,000) \$ 162,000

State operating losses must be offset against taxable income within 5 years of the incurrence of the losses. In 2007 approximately \$33.0 million of state operating losses, or \$1,007,000 on a tax basis, expired unused. Non-deductible equity compensation represents compensation expense recorded with issuance of equity awards which is not currently tax deductible. In 2007, \$1,021,000 of non-deductible equity compensation expired because of the exercise, cancellation or forfeiture of equity awards.

The Company determines its domestic state tax rate by allocating its results of operations and other factors to the various states it has operations in and applying the state's applicable tax rates. The Company increased its

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

state tax rate from 3% for 2006 to 6% for 2007. The impact of the state rate change was to increase deferred tax assets and the valuation allowance by \$1,861,000.

Pretax foreign earnings (losses) were approximately \$1,946,000, \$(746,000) and \$1,943,000 for the fiscal years 2007, 2006 and 2005, respectively. The Company has not received any remittance of any earnings from its foreign operations nor does it intend to in the foreseeable future. Accordingly, U.S. income taxes were not provided for approximately \$8.4 million of undistributed earnings of the Company's Korean subsidiary. The Company intends to reinvest these earnings for the foreseeable future. If the Company were to receive dividends such earnings may be subject to tax at such time.

Deferred taxes are provided to recognize the effect of temporary differences between tax and financial reporting. Deferred income tax assets and liabilities consist of the following:

	Fiscal Year	
	2007	2006
Deferred tax assets:		
Federal net operating loss carryforwards	\$ 18,327,000	\$ 15,991,000
State net operating loss carryforwards	1,024,000	1,564,000
Equity awards	8,488,000	8,335,000
Tax credits	3,391,000	4,077,000
Equipment	3,568,000	3,336,000
Investments	4,874,000	4,268,000
Other	7,299,000	7,165,000
Net deferred tax assets	46,971,000	44,736,000
Valuation allowance	(46,971,000)	(44,736,000)
	\$	\$

As of December 29, 2007, the Company has available for tax purposes federal net operating loss carryforwards (NOL) expiring through 2026. The Company has not historically recorded, nor does it intend to record the tax benefits from stock awards until realized. Unrecorded benefits from stock awards approximated \$14.5 million at each of the years ended 2007 and 2006. The Company has recognized a full valuation allowance on its net United States deferred tax assets due to the uncertainty of realization of such assets. During the fiscal years 2006 and 2005 the Company reversed \$300,000 and \$400,000, respectively of tax accruals as a result of the finalization of the Company's tax filings and the related review period.

In 2007 the Company has performed an analysis of its state tax attributes and has determined that approximately \$686,000 of research and development credits are unavailable to offset future tax, resulting in a reduction of the related deferred tax asset and valuation allowance.

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**7. Accrued Warranty**

The Company warrants its products against defect for 12 months. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded in the period when product is shipped and revenue recognized, and is updated as additional information becomes available. The Company's estimate of future costs to satisfy warranty obligations is based primarily on historical warranty expense experienced and a provision for potential future product failures. Changes in the accrued warranty for 2007 and 2006 are as follows:

	Fiscal Year Ended	
	December 29, 2007	December 30, 2006
Beginning Balance	\$ 1,030,000	\$ 1,030,000
Additions	628,000	373,000
Claim and reversals	(628,000)	(373,000)
Ending Balance	\$ 1,030,000	\$ 1,030,000

8. Employee Benefit Plan

The Company has an employee benefit plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. The plan allows employees to defer an amount of their annual compensation up to a current maximum of \$15,000. The Company will match 50% of all deferred compensation up to a maximum of 3% of each employee's annual compensation. The amount charged to operations in connection with this plan was approximately \$209,000 \$190,000 and \$170,000 in fiscal years 2007, 2006 and 2005, respectively.

9. Commitments*Leases*

The Company leases facilities located in Taunton and Westborough, Massachusetts, and Scotts Valley, California, under non-cancelable operating leases. The Taunton leases expire in 2012 and 2010. The Taunton lease which expires in 2010 may be extended for two additional 10 year periods. The Westborough lease expires in 2012. The Scotts Valley lease terminates in 2012. Substantially all real estate taxes, insurance and maintenance expenses under these leases are the Company's obligations and are expensed as incurred and were immaterial. The following is a schedule of minimum rental commitments under non-cancelable operating leases at December 29, 2007:

Edgar Filing: KOPIN CORP - Form 10-K

Fiscal Year ending,	Amount
2008	1,396,819
2009	1,323,017
2010	1,098,569
2011	992,371
2012	475,476
Total minimum lease payments	\$ 5,286,252

Amounts incurred under operating leases are recorded as rent expense on a straight line basis and aggregated approximately \$1.5 million in fiscal years 2007, 2006 and 2005.

Other Agreements

The Company has entered into various license agreements which require payment of royalties based upon a set percentage of product sales, subject in some cases, to certain minimum amounts. Total royalty expense approximated \$15,000, \$27,000 and \$15,000, respectively, in fiscal years 2007, 2006 and 2005.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2005, the Company amended a purchase and supply agreement with a significant HBT customer that now expires in July 2008, excluding a last time buy option contained in the agreement. Under the terms of this agreement, the Company agreed to maintain capacity levels for manufacturing HBT wafers and the Company committed to a pricing schedule under certain circumstances. The agreement also requires the Company to give prior notice if the Company exits its HBT product line. In consideration for this agreement the customer agreed to source 100% of its HBT wafer needs from the Company subject to the customer's right to source HBT wafers from other sources if the Company is unable to meet their requirements under certain circumstances. The Company agreed that failure to meet its supply obligations under the agreement would allow the Company's customer to obtain court ordered specific performance and if the Company does not perform it could then be liable for monetary damages up to a maximum of \$45.0 million. To date the Company has met its commitments under this agreement.

10. Litigation

Derivative Lawsuits On August 15, 2006, two lawsuits were filed in Superior Court, Bristol County, Massachusetts against certain officers and directors of the Company, purportedly derivatively on behalf of the Company (the "Derivative Suits"). The complaints in the Derivative Suits assert that the named officers and directors breached their fiduciary duties and other obligations to the Company in connection with the Company's historical stock option granting process, the accounting for past stock options, and historical sales of stock by certain individual defendants. Kopin is also named as a nominal defendant in the Derivative Suits, although the lawsuits are derivative in nature and purportedly asserted on behalf of the Company.

Securities Law Action On September 6, 2007, a complaint was filed against the Company and certain of its directors and officers in Superior Court, Bristol County, Massachusetts purportedly on behalf of a class of shareholders who held Kopin stock on September 6, 2007 (the "Securities Law Action"). The plaintiffs in this action assert claims arising under Delaware General Corporations Law § 211(c), alleging that the Company failed to hold an annual shareholder meeting within the past thirteen months. The plaintiffs seek an order requiring the Company to schedule an annual shareholder meeting and to provide notice of the meeting in accordance with Kopin's by-laws.

Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of the Securities Law Action and the derivative lawsuits at this time, and can give no assurance that the claims will not have a material adverse affect on its financial position or its results of operations.

The Company is engaged in other legal proceedings arising in the ordinary course of business. Management believes the ultimate outcome of these proceedings will not have a material adverse impact on the Company's consolidated financial position, results of operations or cash flows.

11. Segments and Geographical Information

The Company's chief operating decision maker is its Chief Executive Officer. The Company's chief operating decision maker evaluates the operating results of the Company's reportable segments based on revenues and net income (loss).

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company operates in two reportable segments, Kopin US, which includes the operations in the United States and the Company's equity method investments, and Kowon. The following table presents the Company's reportable segment results for the years ended December 29, 2007, December 30, 2006 and December 31, 2005:

	Kopin US	Kowon	Adjustments	Total
2007				
Revenues	\$ 92,621,000	\$ 34,378,000	\$ (28,850,000)	\$ 98,149,000
Net income (loss)	(7,767,000)	1,532,000	(321,000)	(6,556,000)
Total Assets	147,400,000	40,823,000	(27,169,000)	161,054,000
2006				
Revenues	\$ 65,083,000	\$ 8,945,000	\$ (2,937,000)	\$ 71,091,000
Net income (loss)	(1,404,000)	(659,000)	(86,000)	(2,149,000)
Total Assets	146,177,000	21,534,000	(6,298,000)	161,413,000
2005				
Revenues	\$ 75,988,000	\$ 26,331,000	\$ (12,023,000)	\$ 90,296,000
Net income (loss)	8,561,000	1,704,000	239,000	10,504,000
Total Assets	150,804,000	20,531,000	(5,001,000)	166,334,000

The adjustments to reconcile to the consolidated financial statement total revenue, net (loss) income and total assets include the elimination of intercompany sales, minority interest in income (loss) of subsidiary and elimination of intercompany receivables.

Geographical revenue information for the three years ended December 29, 2007, December 30, 2006 and December 31, 2005 was based on the location of the customers and is as follows:

	2007		Fiscal Year 2006		2005	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
Asia-Pacific	\$ 40,451,000	41%	\$ 24,858,000	35%	\$ 39,730,000	44%
Americas	57,698,000	59%	46,233,000	65%	50,566,000	56%
	\$ 98,149,000	100%	\$ 71,091,000	100%	\$ 90,296,000	100%

Revenues by product group consisted of approximately the following:

	Fiscal Year		
	2007	2006	2005
III-V	\$ 43,599,000	\$ 43,931,000	\$ 42,705,000
Display	54,550,000	27,160,000	47,591,000

Edgar Filing: KOPIN CORP - Form 10-K

Total revenues	\$ 98,149,000	\$ 71,091,000	\$ 90,296,000
----------------	---------------	---------------	---------------

Long-lived assets by geographic area are as follows:

	Fiscal Years	
	2007	2006
United States of America	\$ 17,972,000	\$ 13,480,000
Republic of Korea	3,955,000	3,875,000
	\$ 21,927,000	\$ 17,355,000

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Selected Quarterly Financial Information (Unaudited)

The following tables present Kopin's quarterly operating results for the fiscal years ended December 29, 2007 and December 30, 2006. The information for each of these quarters is unaudited and has been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the unaudited consolidated quarterly results when read in conjunction with Kopin's audited consolidated financial statements and related notes. These operating results are not necessarily indicative of the results of any future period.

Quarterly Periods During Fiscal Year Ended December 29, 2007:

	Three months ended March 31, 2007	Three months ended June 30, 2007	Three months ended September 29, 2007	Three months ended December 29, 2007(1)
	(In thousands, except per share data)			
Revenue	\$ 18,129	\$ 21,870	\$ 29,221	\$ 28,929
Gross profit(2)	2,646	2,477	4,969	5,474
Net (loss) income	\$ (3,299)	\$ (3,152)	\$ (387)	\$ 282
Net (loss) income per share(3):				
Basic	\$ (0.05)	\$ (0.05)	\$ (0.01)	\$ 0.00
Diluted	\$ (0.05)	\$ (0.05)	\$ (0.01)	\$ 0.00
Shares used in computing net income per share:				
Basic	67,468	67,526	67,547	67,634
Diluted	67,468	67,526	67,547	67,650

- (1) The net earnings for the fourth quarter of fiscal year 2007 were impacted by a non cash charge of \$0.4 million for the writedown of assets and an increase in allowance for doubtful accounts of \$0.5 million.
- (2) Gross profit is defined as net product revenue less cost of product revenues.
- (3) Net (loss) income per share is computed independently for each of the quarters presented; accordingly, the sum of the quarterly net income per share may not equal the total computed for the year.

Quarterly Periods During Fiscal Year Ended December 30, 2006:

	Three months ended April 1, 2006	Three months ended July 1, 2006	Three months ended September 30, 2006	Three months ended December 30, 2006(1)
	(In thousands, except per share data)			
Revenue	\$ 18,690	\$ 18,865	\$ 15,704	\$ 17,832
Gross profit(2)	4,020	5,256	3,010	4,324

Edgar Filing: KOPIN CORP - Form 10-K

Net (loss) income	\$ (57)	\$ 1,673	\$ (884)	\$ (2,882)
Net income (loss) per share(3):				
Basic	\$ 0.00	\$ 0.02	\$ (0.01)	\$ (0.04)
Diluted	\$ 0.00	\$ 0.02	\$ (0.01)	\$ (0.04)
Shares used in computing net (loss) income per share:				
Basic	68,783	68,268	67,798	67,408
Diluted	68,783	68,335	67,798	67,408

- (1) The net loss for the fourth quarter of fiscal year 2006 was impacted by \$3.7 million of legal and professional fees related to the stock option investigation.
- (2) Gross profit is defined as net product revenue less cost of product revenues.
- (3) Net (loss) income per share is computed independently for each of the quarters presented; accordingly, the sum of the quarterly net income per share may not equal the total computed for the year.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

March 31, 2008

KOPIN CORPORATION

By: /s/ JOHN C.C. FAN
John C.C. Fan

Chairman of the Board, Chief Executive Officer,
President and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JOHN C.C. FAN John C.C. Fan	Chairman of the Board, Chief Executive Officer, President and Director (Principal Executive Officer)	March 31, 2008
/s/ JAMES BREWINGTON James Brewington	Director	March 31, 2008
/s/ DAVID E. BROOK David E. Brook	Director	March 31, 2008
/s/ MORTON COLLINS Morton Collins	Director	March 31, 2008
/s/ ANDREW H. CHAPMAN Andrew H. Chapman	Director	March 31, 2008
/s/ CHI CHIA HSIEH Chi Chia Hsieh	Director	March 31, 2008
/s/ MICHAEL J. LANDINE Michael J. Landine	Director	March 31, 2008

Edgar Filing: KOPIN CORP - Form 10-K

/s/ RICHARD A. SNEIDER

Treasurer and Chief Financial Officer (Principal
Financial and Accounting Officer)

March 31, 2008

Richard A. Snieder

KOPIN CORPORATION
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Fiscal Years Ended December 29, 2007, December 30, 2006 and December 31, 2005

Description	Balance at Beginning of Year	Additions Charged to Income	Deductions from Reserve	Balance at End of Year
Reserve deducted from assets allowance for doubtful accounts:				
2005	\$ 351,000	\$ (70,000)	\$	\$ 281,000
2006	281,000	(21,000)	(32,000)	228,000
2007	228,000	705,000	(225,000)	708,000

INDEX TO EXHIBITS

Exhibits		Sequential page number
3.1	Amended and Restated Certificate of Incorporation	(2)
3.2	Amendment to Certificate of Incorporation	(7)
3.3	Amendment to Certificate of Incorporation	(7)
3.4	Second Amended and Restated By-laws	(10)
4	Specimen Certificate of Common Stock	(1)
10.1	Form of Employee Agreement with Respect to Inventions and Proprietary Information	(1)
10.2	1985 Incentive Stock Option Plan, as amended	(1)*
10.3	Amended and Restated 1992 Stock Option Plan	(2)*
10.4	1992 Stock Option Plan Amendment	(7)*
10.5	1992 Stock Option Plan Amendment	(8)*
10.6	Kopin Corporation 2001 Equity Incentive Plan	(9)*
10.7	Kopin Corporation 2001 Equity Incentive Plan Amendment	(12)*
10.8	Kopin Corporation 2001 Equity Incentive Plan Amendment	(13)*
10.9	Kopin Corporation 2001 Equity Incentive Plan Amendment	(14)*
10.10	Kopin Corporation 2001 Supplemental Equity Incentive Plan	(8)*
10.11	Form of Key Employee Stock Purchase Agreement	(1)*
10.12	License Agreement by and between the Company and Massachusetts Institute of Technology dated April 22, 1985, as amended	(1)
10.13	Facility Lease, by and between the Company and Massachusetts Technology Park Corporation, dated October 15, 1993	(3)
10.14	Master Sublease Purchase Agreement, by and between the Company and Massachusetts Industrial Finance Agency, dated June 23, 1994	(4)
10.15	Contract by and between the Company and the United States Department of Commerce, dated April 25, 1995	(5)
10.16	Cooperative Research and Development Agreement, by and between the Company and Massachusetts Institute of Technology Lincoln Laboratory, dated June 21, 1995 (confidential portions on file with the Commission)	(5)
10.17	Letter Agreement, by and between the Company and United Microelectronics Corporation, dated November 29, 1995 (confidential portions on file with the Commission)	(5)
10.18	Joint Venture Agreement, by and among the Company, Kowon Technology Co., Ltd., and Korean Investors, dated as of March 3, 1998	(6)
10.19	Fifth Amended and Restated Employment Agreement between the Company and Dr. John C.C. Fan, dated as of February 20, 2004	(11)*
10.20	Kopin Corporation Fiscal Year 2005 Cash Bonus Plan	(57)*
10.21	Joint Venture Agreement for Kopin Corporation, Bright LED and KTC, dated November 12, 2004	(15)
10.22	Kopin Corporation Form of Stock Option Agreement under 2001 Equity Incentive Plan	(15)*

Exhibits	Sequential page number
10.23	Kopin Corporation 2001 Equity Incentive Plan Form of Restricted Stock Purchase Agreement (15)*
10.24	Kopin Corporation Fiscal Year 2006 Cash Bonus Plan (16)*
21.1	Subsidiaries of Kopin Corporation
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan required to be filed as an Exhibit to this Form 10-K.

- (1) Filed as an exhibit to Registration Statement on Form S-1, File No. 33-45853, and incorporated herein by reference.
- (2) Filed as an exhibit to Registration Statement on Form S-1, File No. 33-57450, and incorporated herein by reference.
- (3) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 1993 and incorporated herein by reference.
- (4) Filed as an exhibit to Quarterly Report on Form 10-Q for the quarterly period ended July 2, 1994 and incorporated herein by reference.
- (5) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference.
- (6) Filed as an exhibit to Annual Report on Form 10-Q for the quarterly period ended June 27, 1998 and incorporated herein by reference.
- (7) Filed as an exhibit to Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000 and incorporated herein by reference.
- (8) Filed as an exhibit to Registration Statement on Form S-8 and incorporated herein by reference.
- (9) Filed as an appendix to Proxy Statement filed on April 20, 2001 and incorporated herein by reference.
- (10) Filed as an exhibit to Annual Report on Form 8-K filed on October 9, 2007 and incorporated herein by reference.
- (11) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and incorporated herein by reference.
- (12) Filed as an exhibit to Registration Statement on Form S-8 filed on August 16, 2002 and incorporated herein by reference.
- (13) Filed as an exhibit to Registration Statement on Form S-8 filed on March 15, 2004 and incorporated herein by reference.
- (14) Filed as an exhibit to Registration Statement on Form S-8 filed on May 10, 2004 and incorporated herein by reference.
- (15) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 25, 2004 and incorporated herein by reference.
- (16) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 30, 2006 and incorporated herein by reference.