KOPIN CORP

FORM 10-Q
(Quarterly Report)

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

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR l5(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 25, 2004

Commission file number 000-19882

KOPIN CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**04-2833935** **(I.R.S. Employer Identification No.)**
200 John Hancock Rd., Taunton, MA **(Address of principal executive offices)**	**02780-7331** **(Zip Code)**

Registrant's telephone number, including area code (508) 824-6696

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or l5(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 whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

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

Class	Outstanding as of Oct 22, 2004
Common Stock, par value $.01	70,002,899

Table of Contents

KOPIN CORPORATION

INDEX

RISK FACTORS

This Form 10-Q report contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, including without limitation our expectations that sales to Skyworks Solutions, Samsung and JVC will continue to represent a significant portion of our revenues for the near future, that the average sales price of our monochrome displays will continue to decline, that future growth in the camcorder market is limited, that our success in penetrating the digital still camera market will significantly impact our ability to increase sales of CyberDisplays, that prices of our HBT transistors will decline by 10 to 15 percent during 2004, that prices for LEDs used for some applications may decline 30% to 50% over the next 12 months, that total fourth quarter 2004 revenue will be flat or decrease $2.0 million, compared to revenues for the fourth quarter 2003, primarily due to an anticipated decrease in demand for CyberDisplay products from customers for use in military applications and normal seasonality, that prices for our CyberLite products and sales volume will decline and that we will make capital expenditures of between $1.0 million and $3.0 million in 2004 and between $4.0 million and $6.0 million over the next twelve months. 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", 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.

If we cannot achieve and maintain the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, our business and operating results could be harmed, investors could lose confidence in our reported financial information and the trading price of our stock could decline significantly. We are in the process of implementing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires an annual management assessment of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments. During the course of our testing we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by Section 404 of Sarbanes-Oxley Act of 2002. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemental or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Moreover, effective internal controls, particularly those related to revenue recognition and our wholly-owned subsidiary Kowon, are necessary for us to produce reliable financial reports and are important to help prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information and the trading price of our stock could decline significantly.

We have experienced a history of losses and have a significant accumulated deficit. Since inception, we have incurred significant net operating losses. As of September 25, 2004 we had an accumulated deficit of $118.8 million. We cannot assure investors that we will achieve profitability in the future.

We have not been able to sell CyberLite ™ products in sufficient volumes to be profitable and may not be able to achieve sales volume or cost reductions necessary to achieve profitability . Since our initial sales of CyberLite in January 2003 we have had low manufacturing yields and a negative gross margin. Improving yields is made more difficult as customers continually demand better performing products. Our ability to achieve profitability is also impacted by declining sales prices, which we have experienced since the products introduction in 2003. We currently do not sell our CyberLite products in sufficient volume to cover our operating costs. We have concluded that our business model, under the current circumstances, has a low probability of achieving profitability and accordingly we are evaluating different business models including the transfer of some or all of the manufacture of CyberLite products to lower labor cost countries. We expect to complete our evaluation by the end of the year. Failure to achieve a workable business model may negatively impact our ability to achieve profitability.

If we are unable to achieve profitability or generate positive cash flow from our CyberLite products, we may be required to recognize an impairment charge on the long-lived assets used in the production of CyberLite products. We currently have approximately $15.1 million of long-lived assets, principally equipment, used in the production of CyberLite LEDs. If we are unable to execute a business model which restores positive cash flows to the LED product line, we will be required to take an impairment charge for the difference between the fair market value of the long lived assets and the carrying value of the assets at the time such impairment charge is recorded.

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. The table below indicates what percentage of our total revenues was from a particular customer 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. Skyworks Solutions, Inc. (Skyworks Solutions) was formed through the merger of Conexant Systems' wireless division and Alpha Industries in 2002. The sales to Skyworks Solutions as a percent of Kopin's total revenues described below are on a pro forma basis assuming the merger occurred on January 1, 2001.

Customer	Sales as a Percent of Total Revenue		
	2003	2002	2001
Skyworks Solutions, Inc.	20%	26%	24%

Samsung Electronics (Samsung)	33	26	22
Matsushita Electric Corp. (Panasonic)	*	13	15
Victor Company of Japan (JVC)	12	15	*
Mitsubishi Electric Company	*	*	11
United States Government	2	3	3

We anticipate that sales to Skyworks Solutions, Samsung and JVC will continue to represent a significant portion of our revenues for the near future. We believe that historically we have provided Skyworks Solutions with the vast majority of its HBT transistor wafers. A reduction or delay in orders from any of our significant customers would materially reduce our revenue and cash flow and adversely affect our ability 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 years ended December 31, 2003, 2002, and 2001 were $43.6 million, $44.1 million, and $23.6 million, respectively. The decrease in CyberDisplay revenues has resulted primarily from a decrease in the average sales price of our monochrome CyberDisplay 320 product to customers for use in camcorders and an overall decline in the sales of camcorders. We believe the average sales price of our monochrome displays will continue to decline and the camcorder market may continue to decline as competing products are offered. We believe we have captured significant market share in the camcorder market and future growth in this market is limited. Accordingly, if we are unable to expand into new markets our revenues from CyberDisplay products may not grow which may impact our ability to become profitable.

For 2004 we have identified the digital still camera market as a potential market to penetrate with our CyberDisplays. We have very limited experience in selling displays to digital still camera makers. We believe our success in penetrating this market will significantly impact our ability to increase sales of CyberDisplays. Accordingly, if we are unable to successfully sell our displays to digital still camera makers we may be unable to grow CyberDisplay revenues and our ability to achieve profitability may be adversely affected.

An important factor in our ability to expand into new markets such as digital still cameras will be the development of new displays which have higher or lower resolution than current displays offered and which can provide color images. We have only recently begun to produce displays which provide color images in volume. To date our yields in producing these displays has been below our historical display yields. Accordingly, if we are unable to develop and market these new displays 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 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 view finder and a flip-out or group view display. We provide the display which is used as the electronic view finder. Our competitors may offer both 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 or group view 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 interface electronics with which to run our display which are cost efficient we may lose market share or be unable to grow our business which in turn would adversely affect our ability to become profitable.

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 such as ours 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 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 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 in one company can not 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;
- Limited control over quality assurance, manufacturing yields and production costs; and
- 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.

One of the foundries and several other third parties with which we do business are located in Taiwan. Due to the earthquake that occurred in Taiwan in 1999 and the typhoon that occurred in Taiwan in September 2001, many Taiwanese companies, including the Taiwanese foundry we use, 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 or political unrest. In addition, our CyberDisplays are manufactured on 6-inch silicon wafers. State of the art silicon production uses 8-inch wafers. We can not be assured that if the 6-inch manufacturing facilities we use were damaged that they would in fact 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 was complete.

In 2003, there was an outbreak of Severe Acute Respiratory Syndrome (SARS). There have been 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 or similar situations occurred in the future.

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. Motorola currently produces many of the integrated circuit chip sets used with our CyberDisplay products in camcorders. The critical raw materials, including the glasses and chemicals used in manufacturing the CyberDisplay, are used by other display manufacturers, many of which are much larger than Kopin. If Motorola or any other third party 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 supplier could be found on reasonable terms or in a timely manner. In the past 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 manufacturing yield and gross margins were adversely affected. Currently there is strong world-wide demand for display materials because of the significant growth of display sales over the last few years. 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 profitability depends upon achieving significant sales volumes and higher gross profit margins. In January 2003 we introduced our CyberLite light emitting diode (LED) product. Our LEDs and heterojunction bipolar transistor (HBT) products comprise our III-V product group. 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 will remain unprofitable.

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 been very unpredictable over the last several years. We expect prices of our HBT transistor will decline by 10 to 15 percent during 2004. If the wireless handset market grows in the range of 10 to 15 percent for the year ending December 31, 2004 we would not expect HBT revenues to increase unless we increase our market share. 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 which may impact our ability to become profitable.

We generally do not have long-term contracts with our customers, which makes forecasting our revenues and operating results difficult. We generally do not enter into long-term agreements with our 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 noncancellable 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. In October 2003 we amended a supply agreement with a significant HBT customer that expires in July 2006. Under the terms of this agreement, as amended, we agreed to maintain capacity levels for manufacturing HBT wafers and we committed to a pricing schedule under certain circumstances. The amended 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. If we do not perform we could then be liable for monetary damages up to a maximum of $45 million. The amended 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 and to any increase in costs of goods or services requires for us to perform under the amended agreement. If we are unable to manufacture the HBT wafers below these preset prices we may not be able to achieve profitability.

Potential 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 by Motorola and other vendors;
- Competitive pressures on selling prices of our products;
- The timing and cancellation of customer orders;
- Our ability to introduce new products and technologies on a timely basis;
- Our ability to successfully reduce costs;
- The cancellation of U.S. government contracts; and
- Our ability to secure agreements from our major customers for the purchase of our products.

We typically plan our production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. Our operating results are difficult to forecast because we 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 not be able to operate multiple manufacturing facilities successfully. A critical part of our business strategy is the expansion of our production capacity both internally and using third party manufacturers. We increasingly rely on our Korean subsidiary, Kowon Technology Co., Ltd. (Kowon), for back-end packaging of our CyberDisplay products. If we are unable to maintain or increase our manufacturing capacity at Kowon, we may be able to manufacture and ship our CyberDisplay products only in limited quantities until replacement foundry services could be obtained.

We are also considering the establishment of additional internal and third party manufacturing capabilities to produce both our III-V and CyberDisplay products. To date, we have operated only one facility for our LED product line.

Our ability to successfully operate additional manufacturing sites will depend on a number of factors, including:

- The identification and availability of appropriate and affordable sites;

- The management of facility construction and development timing and costs;
- The transfer of our manufacturing techniques to additional sites, particularly Kowon;
- The establishment of adequate management and information systems and financial controls; and
- The adaptation of our complex manufacturing processes in our additional sites.

Additionally, we cannot be sure that any new or expanded manufacturing facilities will have operating results similar to those of our current facilities. Any failure to effectively implement our expansion strategy would adversely impact our ability to grow our business.

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 positions, considerable internal manufacturing capacity, established intellectual property rights and substantial technological capabilities. Furthermore, they also have greater financial, technical, manufacturing, marketing and personnel 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, wireless communications devices and light emitting diodes 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 begin to commercialize their internal capabilities and 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 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 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. Process changes or other problems that occur in the complex manufacturing process can result in interruptions in production or significantly reduced yields. Additionally, as we introduce new equipment into our manufacturing processes, our III-V 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. The advanced semiconductor materials and display industries are characterized by rapidly changing customer requirements and evolving technologies and industry standards. 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 and 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 property 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 light emitting diode (LED), wireless communications, semiconductor and display industries steadfastly pursue and protect intellectual property rights. This has resulted in considerable and costly litigation in the industries 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. 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 wireless and fiber optic communications 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 be unable to grow at our historical growth rates or at all, and if we grow we may be unable to manage our growth effectively. In 1999 and 2000, we experienced significant growth in sales of our III-V and CyberDisplay products. We believe that the high growth rates of 1999 and 2000, driven principally by sales of our HBT transistor wafers, were the result of the adoption of digital wireless handsets in the marketplace. Due to a significant slowdown in the wireless and fiber optic communication markets and other general economic conditions, our sales declined in 2001 and subsequently have not reached the levels of 1999 and 2000. In addition, we cannot assure investors that our systems, procedures, controls and existing and planned space will be adequate to support our future operations. As a result of these concerns, we cannot be sure that we will grow, or, if we do grow, that we will be able to achieve our historical growth rate.

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 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. 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. We cannot assure investors that we have not, in the past, violated applicable laws or regulations which could result in required remediation or other liabilities.

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.

PART I. FINANCIAL INFORMATION

KOPIN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 25, 2004	December 31, 2003
Assets		
Current assets:		
Cash and equivalents	$ 21,266,829	$ 29,144,578
Marketable securities, at fair value	88,852,006	91,188,610
Accounts receivable, net of allowance of $1,200,000 as of 2004 and 2003	10,502,434	6,771,391
Inventory	10,585,952	5,920,364
Prepaid expenses and other current assets	2,253,109	1,451,374
Total current assets	133,460,330	134,476,317
Property, plant and equipment, net	24,945,126	31,008,403
Other assets	7,692,396	9,335,749
Total assets	$ 166,097,852	$ 174,820,469
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 9,199,679	$ 10,442,184
Accrued payroll and expenses	1,861,938	2,224,928
Accrued warranty	1,030,000	1,030,000
Billings in excess of revenues earned	1,967,559	1,378,970
Other accrued liabilities	3,148,686	2,893,502
Total current liabilities	17,207,862	17,969,584
Minority interest in subsidiary	3,690,791	3,113,728
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; 70,114,035 and 70,044,960 shares issued in 2004 and 2003, respectively	701,140	700,449
Additional paid-in capital	263,429,934	263,165,884
Deferred compensation	(1,064,174)	(1,421,904)
Accumulated other comprehensive income	1,270,178	3,213,838
Treasury stock	(378,319)	—
Accumulated deficit	(118,759,560)	(111,921,110)
Total stockholders' equity	145,199,199	153,737,157
Total liabilities and stockholders' equity	$ 166,097,852	$ 174,820,469

See notes to unaudited condensed consolidated financial statements.

[Table of Contents]

KOPIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 25, 2004	September 27, 2003	September 25, 2004	September 27, 2003
Revenues:				
Product revenues	$ 22,911,095	$ 17,213,912	$ 67,841,529	$ 54,730,946
Research and development revenues	—	300,000	986,553	700,000
	22,911,095	17,513,912	68,828,082	55,430,946
Expenses:				
Cost of product revenues	17,833,237	14,764,386	56,758,136	44,662,098
Research and development	3,542,350	3,294,887	10,965,079	9,098,567
Selling, general and administrative	2,679,540	2,373,777	8,434,760	8,004,755
Other	240,000	120,216	240,000	360,648
	24,295,127	20,553,266	76,397,975	62,126,068
Loss from operations	(1,384,032)	(3,039,354)	(7,569,893)	(6,695,122)
Other income and expense:				
Interest and other income	646,211	891,691	2,219,304	2,583,749
Interest and other expense	(258,613)	(711,992)	(1,056,709)	(1,494,561)
Loss before minority interest in income of subsidiary	(996,434)	(2,859,655)	(6,407,298)	(5,605,934)
Minority interest in income of subsidiary	(124,109)	(166,588)	(431,152)	(658,056)
Net loss	$ (1,120,543)	$ (3,026,243)	$ (6,838,450)	$ (6,263,990)
Loss per share:				
Basic	$ (.02)	$ (.04)	$ (.10)	$ (.09)
Diluted	$ (.02)	$ (.04)	$ (.10)	$ (.09)
Weighted average number of common shares outstanding:				
Basic	70,048,767	69,549,645	70,079,558	69,449,090
Diluted	70,048,767	69,549,645	70,079,558	69,449,090

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 25, 2004	September 27, 2003	September 25, 2004	September 27, 2003
Net loss	$ (1,120,543)	$ (3,026,243)	$ (6,838,450)	$ (6,263,990)
Foreign currency translation adjustments	(15,563)	352,237	398,531	410,922
Holding gain (loss) on marketable securities, net	(83,453)	317,107	(2,342,191)	1,142,846
Comprehensive loss	$ (1,219,559)	$ (2,356,899)	$ (8,782,110)	$ (4,710,222)

See notes to unaudited condensed consolidated financial statements.

Table of Contents

KOPIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Nine months ended September 25, 2004 and September 27, 2003
(unaudited)

	Common Stock		Additional Paid-in Capital	Deferred Compensation	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount						
Balance, December 31, 2002	69,391,349	$693,913	$260,253,567	—	—	$ 1,013,040	$(105,042,852)	$156,917,668
Exercise of stock options	314,229	3,143	1,243,256	—	—	—	—	1,246,399
Net unrealized holding gain on marketable securities	—	—	—	—	—	1,142,846	—	1,142,846
Foreign currency translation adjustments	—	—	—	—	—	410,922	—	410,922
Net loss for the nine-month period ended September 27, 2003	—	—	—	—	—	—	(6,263,990)	(6,263,990)
Balance, September 27, 2003	69,705,578	$697,056	$261,496,823	—	—	$ 2,566,808	$(111,306,842)	$153,453,845
Balance, December 31, 2003	70,044,960	$700,449	$263,165,884	$(1,421,904)	—	$ 3,213,838	$(111,921,110)	$153,737,157
Exercise of stock options	69,075	691	264,050	—	—	—	—	264,741
Issuance of restricted stock	—	—	—	(24,800)	—	—	—	(24,800)
Amortization of deferred compensation relating to stock awards	—	—	—	382,530	—	—	—	382,530
Stock repurchase	—	—	—	—	(378,319)	—	—	(378,319)
Net unrealized holding loss on marketable securities	—	—	—	—	—	(2,342,191)	—	(2,342,191)
Foreign currency translation adjustments	—	—	—	—	—	398,531	—	398,531
Net loss for the nine-month period ended September 25, 2004	—	—	—	—	—	—	(6,838,450)	(6,838,450)
Balance, September 25, 2004	70,114,035	$701,140	$263,429,934	$(1,064,174)	$(378,319)	$ 1,270,178	$(118,759,560)	$145,199,199

See notes to unaudited condensed consolidated financial statements.

KOPIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine months ended	
	September 25, 2004	September 27, 2003
Cash flows from operating activities:		
Net loss	$ (6,838,450)	$ (6,263,990)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,344,122	7,665,336
Minority interest in income of subsidiary	431,152	658,056
Equity loss in affiliate	778,411	1,033,933
Amortization of deferred compensation	382,530	—
Changes in assets and liabilities:		
Accounts receivable	(3,633,443)	(2,348,844)
Inventory	(4,578,324)	(1,416,450)
Prepaid expenses and other current assets	(780,062)	(308,348)
Accounts payable and accrued expenses	(1,461,937)	463,991
Billings in excess of revenues earned	588,589	849,150
Net cash (used in) provided by operating activities	(7,767,412)	332,834
Cash flows from investing activities:		
Marketable securities	2,012,723	4,375,409
Equity investment	(1,274,272)	798,035
Proceeds from sale of equipment	100,000	—
Purchase of minority interest in consolidated subsidiary	—	(694,282)
Capital expenditures	(1,133,085)	(5,264,670)
Net cash used in investing activities	(294,634)	(785,508)
Cash flows from financing activities:		
Common stock repurchased	(378,319)	—
Proceeds from exercise of stock options	264,741	1,246,399
Net cash (used in) provided by financing activities	(113,578)	1,246,399
Effect of exchange rate changes on cash	297,875	262,437
Net (decrease) increase in cash and equivalents	(7,877,749)	1,056,162
Cash and equivalents, beginning of period	29,144,578	35,297,639
Cash and equivalents, end of period	$ 21,266,829	$ 36,353,801

See notes to unaudited condensed consolidated financial statements.

Table of Contents

KOPIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated financial statements for the three and nine months ended September 25, 2004 and September 27, 2003 are unaudited and include all adjustments which, in the opinion of management, are necessary to present fairly the results of operations for the periods then ended. All such adjustments are of a normal recurring nature.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Kopin Corporation's (the "Company") Annual Report on Form 10-K filed with the Securities and Exchange Commission (File No. 000-19882) for the year ended December 31, 2003.

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

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and Kowon Technology Co., Ltd. ("Kowon"), a majority owned (73%) subsidiary located in Korea. All intercompany transactions and balances have been eliminated.

2. FOREIGN CURRENCY TRANSLATION

Assets and liabilities of non-U.S. operations are translated into U.S. dollars at period-end exchange rates, and revenues and expenses at rates prevailing during the quarter. Currency translation adjustments are recorded as part of accumulated other comprehensive income and aggregate $1,047,068 of unrealized gain at September 25, 2004. Transaction gains or losses are recognized in income or loss currently.

3. INVENTORY

Inventory is stated at the lower of cost (first in, first out method or specific identification method) or market and consists of the following:

	September 25, 2004	December 31, 2003
Raw materials	$ 4,089,852	$ 4,276,433
Work in process	4,114,838	1,066,877
Finished goods	2,381,262	577,054
	$10,585,952	$ 5,920,364

4. NET LOSS PER SHARE

Basic net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed using the weighted average number of common shares and potential common shares outstanding during the period using the treasury method. Potential common shares have not been included in any periods in which the effect would be anti-dilutive. For the three and nine month periods ended September 25, 2004, stock options exercisable into 9,381,420 and 9,389,105, shares, respectively, were outstanding but not included in the computation of diluted earnings per share as the net loss for this period would have made their effect anti-dilutive. For the three and nine month periods ended September 27, 2003, stock options exercisable into 9,010,124 and 9,265,661, shares, respectively, were outstanding but not included in the computation of diluted earnings per share as the net loss for this period would have made their effect anti-dilutive

The Company accounts for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, using the intrinsic-value method. Under APB Opinion No. 25, stock compensation expense is recognized for the excess, if any, of fair value of the award price over the exercise price.

The following table illustrates the effect on the net loss and net loss per share had the Company used the fair-value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation and its amendment, to measure employee stock compensation. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2003: no expected dividend yield; expected volatility of 72.69%; risk-free interest rate of 4.25%; and expected lives of four years. The weighted-average fair value of options on grant date was $3.13 in 2003. There were 11,000 and 161,000 options granted in the three and nine month periods ended September 25, 2004.

	Three Months Ended		Nine Months Ended	
	September 25, 2004	September 27, 2003	September 25, 2004	September 27, 2003
Net loss, as reported	$ (1,120,543)	$ (3,026,243)	$ (6,838,450)	$ (6,263,990)
Plus: Amortization of stock based compensation expense	130,265	—	382,530	—
Less: Total stock-based employee compensation determined under fair value based method for all awards	(1,260,413)	(2,273,072)	(5,071,494)	(6,781,340)
Pro Forma net loss	$ (2,250,691)	$ (5,299,315)	$ (11,527,414)	$ (13,045,330)
Earning per share:				
Basic, as reported	$ (.02)	$ (.04)	$ (.10)	$ (.09)
Basic, pro forma	$ (.03)	$ (.08)	$ (.16)	$ (.19)
Diluted, as reported	$ (.02)	$ (.04)	$ (.10)	$ (.09)
Diluted, pro forma	$ (.03)	$ (.08)	$ (.16)	$ (.19)

5. OTHER CURRENT AND NON-CURRENT ASSETS

Other assets consist primarily of marketable and non-marketable equity securities in various companies and notes receivable.

Marketable Securities

At December 31, 2000, the Company had a 20% interest in Kendin Communications, Inc. (Kendin), which was accounted for using the equity method and had a carrying value of $3,170,000. During the second quarter of 2001, the Company exchanged its interest in Kendin for 986,054 shares of Micrel Incorporated (Micrel), as part of Micrel’s acquisition of Kendin, and recorded a net gain of $24,600,000 on the exchange. At the time of the exchange Micrel’s stock was trading at $29.31 per share. Following this transaction, the Company discontinued the use of the equity method to account for this investment and has accounted for its investment in Micrel common stock as available-for-sale securities and changes in the value of the Micrel investment have been reflected in accumulated other comprehensive income unless an other than temporary impairment charge was recognized. During the third quarter of 2001 the Company sold 200,000 of its Micrel shares and recorded a gain of approximately $700,000.

During the second quarter of 2002, as the result of the lapse of a contingency period related to the sale of Kendin, the Company received 115,448 shares of Micrel common stock which were previously held in escrow. Also during the quarter the Company sold 249,448 shares of Micrel and recognized a net loss of approximately $101,000 on these transactions. During the fourth quarter of 2002 the Company sold 150,000 shares of Micrel and recorded a loss on the disposition of approximately $2,525,000.

On December 31, 2002 the closing price of Micrel’s common stock was $8.98 per share. As a result of the continuing decline in the price of Micrel common stock the Company recognized an other than temporary impairment charge of $10,211,000 to record the Micrel investment at fair value.

During the third quarter of 2003 the Company sold 100,000 shares of Micrel and recorded a gain on the disposition of approximately $300,000.

The gains and losses recognized from the exchange of the Micrel investment and subsequent activity related to Micrel is included in other income and expense. Since the receipt of the Micrel shares the Company has sold approximately 700,000 shares for total proceeds of $13,443,000. As of September 25, 2004, the Company held approximately 400,000 shares of Micrel common stock with a market value of $4,137,000.

Non-Marketable Securities

At September 25, 2004, the Company has a 40% interest in Kopin Taiwan Corp (KTC), which was accounted for using the equity method and has a carrying value of $0. For the nine month period ended September 25, 2004, the Company had sales of approximately $1,777,000 to KTC, as compared to $1,911,000 for the nine month period ended September 27, 2003. For the three and nine months ended September 25, 2004, we recorded losses of approximately $178,000 and $778,000, respectively, in interest and other expense, net, which approximated our ownership percentage of KTC's operating results. At September 25, 2004, the Company was owed approximately $1,039,000 from KTC, compared to $610,500 at September 27, 2003. One of the Company's Directors is chairman of KTC and owns approximately 1% of the outstanding common stock of KTC.

At September 25, 2004, the Company had an investment in a company with a carrying value of approximately $2,896,000, including an additional investment of $1,274,000 transacted in May 2004. The Company's Chief Executive Officer is a founder and board member of this company and owns approximately 4.0% of this company. Certain directors and an officer of the Company have also invested in this company and their range of ownership is from .2% to 1.3%.

Certain officers and directors have invested in some of the Company's other investee companies, including Micrel.

6. ACCRUED WARRANTY

Kopin 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. Kopin'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.

	Nine Months Ended September 25, 2004	Year Ended December 31, 2003
Beginning Balance	$ 1,030,000	$ 830,000
Additions	875,000	1,193,000
Claim and reversals	(875,000)	(993,000)
Ending Balance	$ 1,030,000	$ 1,030,000

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

This Form 10-Q report contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. 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", 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 above under "Risk Factors." Forward-looking statements contained in this Form 10-Q include, but are not limited to, our expectations that sales to Skyworks Solutions, Samsung and JVC will continue to represent a significant portion of our revenues for the near future, that the average sales price of our monochrome displays will continue to decline, that future growth in the camcorder market is limited, that our success in penetrating the digital still camera market will significantly impact our ability to increase sales of CyberDisplays, that prices of our HBT transistors will decline by 10 to 15 percent during 2004, that prices for LEDs used for some applications may decline 30% to 50% over the next 12 months, that total fourth quarter 2004 revenue will be flat or decrease $2.0 million, compared to revenues for the fourth quarter 2003, primarily due to an anticipated decrease in demand for CyberDisplay products from customers for use in military applications and normal seasonality, that prices for our CyberLite products and sales volume will decline and that we will make capital expenditures of between $1.0 million and $3.0 million in 2004 and between $4.0 million and $6.0 million over the next twelve months. In addition, we have received inquiries from certain agencies of the U. S. Government about providing more advanced displays. In order to build such displays certain additions to the Company's current facilities would be required and would increase the estimated capital expenditures between $5.0 million and $10.0 million over the next twelve months.

In addition to the risks and uncertainties set forth in this Form 10-Q, other factors that could cause actual results to differ materially include, without limitation, the following: general economic and business conditions and growth in the flat panel display and the gallium arsenide integrated circuit and materials industries, sales growth of the wireless handset industry, the successful introduction and commercialization of our CyberLite ™ product, the impact of competitive products and pricing, possible litigation involving our patents or other intellectual property rights, availability of integrated circuit fabrication facilities, cost and yields associated with the production of our products, availability of interface electronic chips to run our CyberDisplay ™ products, loss of significant customers, acceptance of our products, continuation of strategic relationships, changes in foreign currency exchange rates, and the risk factors and cautionary statements listed from time to time in the Company's periodic reports and registration statements filed with the Securities and Exchange Commission, including but not limited to our Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

CRITICAL ACCOUNTING POLICIES

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 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) collectibilty is reasonably assured. Determination of criteria (3) and (4) are based on management's judgment regarding the fixed nature of the price to the buyer charged for products delivered and services rendered and collectibility of the sales price. 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. We typically provide customers with a twelve month warranty from the date of sale for our products. If our judgment about recognizing revenue or our estimate of warranty claims are incorrect, our revenue could be overstated and profits would be negatively impacted.

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 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 bill unbilled receivables 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 are 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. Inventories that are obsolete or slow moving are generally fully reserved 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. Accordingly, ending inventory attributable to the Company's III-V products represents products manufactured but not yet delivered to customers. 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 fabs 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 write the inventory down to estimated realizable value (generally zero).

Investment Valuation

We periodically make equity investments. We evaluate the need to potentially adjust the carrying value of such investments to recognize impairments based upon the investments' operating results, current economic trends and if it is a public company by comparing our carrying value against the company's publicly traded stock price. We provide for impairment 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

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. For long-lived assets classified as held for sale, the asset is measured at the lower of its carrying amount or fair value less cost to sell. SFAS No. 144 also defines when assets to be disposed of should be presented as discontinued operations.

If our estimates of anticipated future cash flows or market conditions were incorrect, additional impairment charges may be required.

BUSINESS MATTERS

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

We have two principal components of revenues: product revenues and research and development revenues. Product revenues consist of sales of our line of CyberDisplay products and our III-V products, which include gallium arsenide (“GaAs”) HBT transistor wafers and CyberLite light emitting diodes (LEDs). Our CyberDisplay, GaAs HBT transistor wafers and CyberLite LED products are used primarily in camcorders, wireless handsets and mobile communication devices, respectively. Research and development revenues consist primarily of development contracts with agencies of the U.S. government for advanced displays. For the nine months ended September 25, 2004, we recognized $1.0 million of research and development revenues compared to $0.7 million recognized in the corresponding period in 2003.

Results of Operations

Revenues. Our total revenues for the three and nine months ended September 25, 2004 were $22.9 million and $68.8 million, respectively, compared to $17.5 million and $55.4 million during the corresponding periods in 2003. This represents an increase in total revenues of approximately $5.4 million and $13.4 million for the three and nine month periods. Our product revenues were $22.9 million and $67.8 million for the three and nine months ended September 25, 2004, respectively, compared to $17.2 million and $54.7 million for the corresponding periods in 2003. This represents an increase of approximately $5.7 million for the three month period compared to the corresponding period in 2003. For the nine month period ended September 25, 2004, III-V and CyberDisplay revenues, which include both product and research and development revenues, were $29.6 million and $39.2 million, respectively, as compared to $24.1 million and $31.3 million, respectively, for the nine months ended September 25, 2003. For the nine months ended September 25, 2004, the increase in III-V revenue over the same period of the prior year is attributable to unusually lower sales of our HBT products in the prior year period. In the third quarter of 2003, we were negotiating a sole source agreement with a significant HBT customer. Upon completion of the negotiation in the third quarter of 2003 the customer did not buy HBT products from us until they had substantially used up their inventory from other HBT vendors. The comparable increase in HBT product sales was offset by lower CyberLite sales which declined due to lower sales prices and unit volumes. The increase in CyberDisplay revenues is attributable to an increase in sales to customers who incorporate our CyberDisplay products into military products.

The LED market remains very competitive from both a performance and pricing standpoint. We estimate that prices of LEDs used for some applications, such as key pads for wireless handsets, may decline 30% to 50% over the next 12 months as a result of industry capacity increasing at a faster rate than the growth of the application. CyberLite product sales for the three and nine month periods ended September 25, 2004 were approximately $0.6 million and $3.4 million, respectively, compared to $1.6 million and $5.6 million for the corresponding periods in 2003. Our LED product sales are currently generating a negative gross margin, and this negative margin, coupled with our continuing substantial investments in development, has resulted in significant losses for the product line. Accordingly, we are evaluating different business models to enhance our competitive position in the high-brightness LED market. We expect to complete our evaluation by the end of the year. We currently have approximately $15.1 million of long lived assets, principally equipment, used in the production of our LED products. If we are unable to execute a business model which produces positive cash flows to the LED product line, we will be required to take an impairment charge for the difference between the fair market value of the long lived assets and the carrying value of the assets at the time such impairment charge is recorded.

For the three month period from September 26, 2004 through December 31, 2004 we expect revenues to be in the range of $18.0 to $20.0 million. We believe the projected decrease, as compared to the preceeding quarter will be primarily driven by an anticipated decrease in demand for CyberDisplay products from customers for use in military applications and normal seasonality In addition we expect further price decline for our CyberLite products and lower sales volume.

International sales represented approximately 51% and 61% of revenues for the nine months ended September 25, 2004 and September 27, 2003, respectively. International sales are primarily sales of CyberDisplay and CyberLite products to consumer electronic manufacturers primarily located in Japan and Korea. 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. Kowon's sales are primarily denominated in U.S. dollars. However, Kowon's operating costs are denominated in Korean won. As a result, our financial position and results of operations are subject to exchange rate fluctuation. We have not taken any protective measures against exchange rate fluctuations, such as purchasing hedging instruments with respect to such fluctuations, because historically the exchange rate between the Japanese yen, Korean won and the U. S. dollar has been relatively stable.

Cost of Product Revenues. Cost of product revenues, which is comprised of materials, labor and manufacturing overhead related to our products, was $17.8 million and $56.8 million for the three and nine months ended September 25, 2004, compared to $14.8 million and $44.7 million during the corresponding periods in 2003. For the three months ended September 25, 2004 and September 27, 2003, cost of product revenues as a percentage of product sales was 78% and 86%, respectively. For the nine months ended September 25, 2004 and September 27, 2003, cost of product revenues as a percentage of sales was 84% and 82%, respectively. For the three month period ended September 25, 2004, cost of product revenue decreased as a percentage of revenue as compared to the same period a year ago as a result of higher sales of CyberDisplay products for military applications, which have higher gross margins than commercial display products and lower CyberLite sales which have a negative gross margin. For the nine months ended September 25, 2004, the higher gross margins in the third quarter were offset by lower CyberDisplay product gross margins in the first and second quarters. The color filter CyberDisplay products were introduced in the fourth quarter of 2003 and volume production began in 2004. The color filter CyberDisplay products manufactured in the first and second quarter of 2004 had lower manufacturing yields as compared to monochrome CyberDisplay products sold in the same periods of the previous year.

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 costs include staffing, purchases of materials and laboratory supplies, equipment, circuit design costs, fabrication and packaging of display products, and overhead. Funded R&D expenses were $0.7 million and $1.6 million for the three and nine months ended September 25, 2004, compared to $0.5 million and $1.3 million for the corresponding periods in 2003. Internal R&D expenses were $2.8 million and $9.4 million for the three and nine months ended September 25, 2004, compared to $2.8 million and $7.8 million during the corresponding periods in 2003. The increase in R&D was primarily attributable to development efforts for new display and LED products.

Selling, General and Administrative. Selling, general and administrative (S,G&A) expenses consist of expenses incurred by our sales and marketing personnel and related expenses, and administrative and general corporate expenses. S,G&A expenses were $2.7 million and $8.4 million for the three and nine months ended September 25, 2004 as compared to $2.4 million and $8.0 million during the corresponding periods in 2003. The period over period increase in S,G&A is primarily due to increases in auditing, legal and consulting expenses. Also included in S,G&A for the three and nine months ended September 25, 2004 was $0.1 and $0.4 million of non-cash amortization expense relating to the 2003 issuance of restricted stock options.

Other Income and Expenses. Other income and expense, net, was $0.4 million and $1.2 million for the three and nine months ended September 25, 2004 compared to $0.2 million and $1.1 million during the corresponding periods in 2003. Included in Other Income and Expense for the three and nine months ended September 25, 2004 is the net loss on our equity investment in KTC of approximately $0.2 million and $0.8 million, compared to $0.3 million and $0.9 million during the corresponding periods in 2003. We do not expect to recognize further losses on our investment in KTC.

Liquidity and Capital Resources

We have financed our operations primarily through public and private placements of our equity securities, research and development contract revenues, and sales of our III-V and CyberDisplay products. We believe our available cash resources will support our operations and capital needs for at least the next twelve months.

As of September 25, 2004, we had cash and equivalents and marketable securities of $110.1 million and working capital of $116.3 million compared to $120.3 million and $116.5 million, respectively, as of December 31, 2003. During the nine month period ended September 25, 2004, the decrease in cash and equivalents and marketable securities was due to the use of $7.8 million in cash for operating activities, $1.3 million for an investment in non-marketable securities, $0.4 million for the repurchase of Kopin stock and $1.1 million for capital expenditures, partially offset by cash proceeds from stock option exercises of $0.3 million.

As discussed above we are evaluating different business models for our LED product line. If we are unable to achieve a profitable business model which generates positive cash flow from our CyberLite products, we may be required to take an impairment charge on the long-lived assets used in the production of CyberLite products. As of September 25, 2004, we have approximately $15.1 million of equipment used in the production of CyberLite LEDs.

The Company has entered into an agreement with a vendor which requires the Company to purchase approximately $2,000,000 worth of raw materials during the year ending December 31, 2004.

In October 2003 the Company amended a supply agreement with a significant HBT customer that expires in July 2006. Under the terms of this agreement, as amended, the Company agreed to maintain capacity levels for manufacturing HBT wafers and the Company committed to a pricing schedule under certain circumstances. The amended 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 amended agreement would allow its 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 $45,000,000.

We lease facilities located in Taunton and Westborough, Massachusetts, Scotts Valley, California, and Columbia, Maryland, under non-cancelable operating leases. The Taunton leases expire through May 2010. The Westborough lease expires in April 2008. The California lease expires in 2007. The Maryland lease expires in 2005. We are currently obligated to make aggregate lease payments of approximately $5.2 million over the remaining terms of these leases.

We expect to expend between $1.0 and $3.0 million on capital expenditures in 2004 and between $4.0 million and $6.0 million over the next twelve months. In addition, the company has received inquiries from certain agencies of the U. S. Government about providing more advanced displays. In order to build such displays certain additions to the Company's current facilities would be required and would increase the estimated range of capital expenditures to between $5.0 million and $10.0 million over the next twelve months. The funding for these capital expenditures will come from available cash balances.

On October 9, 2002, we authorized the re-purchase of up to $15 million of our common stock over a two year period. On September 23, 2004 the Company's Board of Directors authorized an extension of the Company's buy back program through 2006. Between July 29 and September 25, 2004, the Company repurchased 103,000 shares of its common stock for $378,319 (an average of $3.67 per share), representing all of the shares repurchased to date under this program. The total remaining amount of common stock the Company is authorized to repurchase under this program is $14,622,000. Refer to Part II, Item 2 herein for more information.

Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R). FIN 46R addresses Off-Balance Sheet Assets, Liabilities and Obligations and gives guidance for determining which entities should consolidate the respective assets and liabilities and associated obligations. The adoption of FIN 46R did not impact our consolidated financial statements

In April 2003, The FASB issued Statement of Financial Accounting Standard (SFAS) No.149, Amendment of Statement 133 on Derivative Instruments and Hedging, which amends and clarifies financial accounting and reporting for derivative instruments. SFAS No.149 became effective for us in July 2003. The adoption of SFAS No. 149 did not have an affect on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. This statement requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer. Generally, the statement is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of interim periods beginning after June 15, 2003. We have not entered into any financial instruments within the scope of the statement. The adoption of SFAS No. 150 did not have an affect on our consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We invest our excess cash in high-quality government and corporate financial 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. Included in other assets is an equity investment in Micrel, Incorporated (Micrel) totaling approximately $4.1 million which is subject to changes in value because of either specific operating issues at Micrel or overall changes in the stock market. We sell our products to customers worldwide. We maintain a reserve of $1.2 million, or approximately 5% of quarterly revenues, for potential credit losses. 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. We do not believe that changes in currency will have a material impact on our financial position.

Table of Contents

Item 4. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13-a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this quarterly report on Form 10-Q. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are (1) designed to ensure that material information relating to us (including our subsidiaries) is made known to our Chief Executive Officer and Chief Financial Officer by others within those entities during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

Our management, including our Chief Executive Officer and Chief Financial Officer, reviewed our internal control over financial reporting. There have been no significant changes in our internal control over financial reporting that could materially affect, or are reasonably likely to materially affect, such internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended September 25, 2004, the Company purchased the following shares of its common stock under its stock repurchase program:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly-Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under Programs
June 27 - July 26, 2004	—	—	—	$ 15,000,000
July 27 - August 26, 2004	97,000	$ 3.66	97,000	$ 14,645,179
August 27 - September 25, 2004	6,200	$ 3.75	6,200	$ 14,621,682
Total	103,200	$ 3.67	103,200	$ 14,621,682

Item 6. EXHIBITS

(a) Exhibits

Exhibit No.	Description
31.1	Certificate of John C.C. Fan, Chief Executive Officer of the Registrant, filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
31.2	Certificate of Richard A. Sneider, Chief Financial Officer of the Registrant, filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.1	Certificate of John C.C. Fan, Chief Executive Officer of the Registrant, furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.2	Certificate of Richard A. Sneider, Chief Financial Officer of the Registrant, furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

Table of Contents

SIGNATURES

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

KOPIN CORPORATION
(Registrant)

Date: November 4, 2004	By:	/s/ John C.C. Fan
		John C.C. Fan President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
Date: November 4, 2004	By:	/s/ Richard A. Sneider
		Richard A. Sneider Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, John C.C. Fan, the President and Chief Executive Officer of Kopin Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kopin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (c) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: November 4, 2004

/s/ John C.C. Fan

John C. C. Fan
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Richard A. Sneider, the Chief Financial Officer of Kopin Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kopin Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (c) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 4, 2004

/s/ Richard A. Sneider

Richard A. Sneider
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is hereby made solely for the purpose of satisfying the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 and may not be relied upon or used for any other purposes.

In connection with the Quarterly Report of Kopin Corporation (the "Company") on Form 10-Q for the period ended September 25, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John C. C. Fan, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 4, 2004

By: /s/ John C. C. Fan

John C. C. Fan
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is hereby made solely for the purpose of satisfying the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 and may not be relied upon or used for any other purposes.

In connection with the Quarterly Report of Kopin Corporation (the “Company”) on Form 10-Q for the period ended September 25, 2004, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard A. Sneider, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 4, 2004

By: /s/ Richard A. Sneider

Richard A. Sneider
Chief Financial Officer