

KOPIN CORP

FORM 10-K (Annual Report)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2003

OR

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

Commission file number 0-19882

KOPIN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

State or other jurisdiction
of incorporation or organization

200 John Hancock Rd., Taunton, MA

(Address of principal executive offices)

04-2833935

(I.R.S. Employer
Identification No.)

02780-1042

(Zip Code)

Registrant's telephone number, including area code:

(508) 824-6696

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.01 per share
(Title of Class)

Name of each exchange on which registered:

Nasdaq National Market

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 28, 2003, the aggregate market value of outstanding shares of voting stock held by non-affiliates of the registrant was \$404,795,129.

As of March 5, 2004, 70,056,874 shares of the registrant's Common Stock, par value \$.01 per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 21, 2004 are incorporated by reference into Part III of this Report. Other documents incorporated by reference are listed in the Exhibit Index.

Part I

Item 1. Business

Except for the historical information contained herein, the following discussion 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 below under "Risk Factors."

Introduction

We were incorporated in Delaware in 1984 and are a leading developer and manufacturer of III-V products and miniature flat panel displays. We use our proprietary semiconductor material technology to design, manufacture and market our III-V and display products. Our products enable our customers to develop and market an improved generation of products for applications in wireless and consumer electronic products.

We commercially develop and manufacture Gallium Arsenide-based HBT transistor wafers and other commercial semiconductor products that use Indium Phosphide, Gallium Nitride, and Gallium Arsenide-based substrates. We have also been developing light emitting diodes (LEDs) grown on sapphire substrates which are called CyberLites™. We collectively refer to our products based on compound semiconductor materials as our "III-V" products because we use elements found on the III and V columns of the periodic table of elements. Our primary III-V product is our heterojunction bipolar transistor wafers, or HBT transistor wafers. Our HBT transistor wafers are customer-specific arrays of vertically oriented transistors that our customers use primarily to produce high performance integrated circuits for wireless communications products. In 2002, Conexant Systems, our principal customer for our HBT transistor wafers, merged its wireless division with Alpha Industries, another of our customers, to create Skyworks Solutions, Inc. (Skyworks Solutions). On a pro forma basis, assuming the merger occurred on January 1, 2001, sales of our HBT transistor wafers to Skyworks Solutions would have accounted for approximately 20%, 26% and 24% of our total revenues for the years ended December 31, 2003, 2002 and 2001, respectively. In addition to Skyworks Solutions, original equipment manufacturers including ANADIGICS, Triquint Semiconductor and Toshiba purchase our HBT transistor wafers.

Our CyberDisplay products are miniature, high performance, high resolution, low cost displays designed for consumer electronics and next generation mobile communications devices. Current applications of our CyberDisplay products include viewing images in camcorders and digital cameras, and we believe that our CyberDisplay products are well suited for new applications such as reading e-mail and browsing the Internet using digital wireless devices and other consumer electronics devices. We currently sell our CyberDisplay product to Victor Company of Japan Ltd. (JVC), Matsushita Electrical Industrial Co., Ltd. (Panasonic) and Samsung Electronics Co., Ltd. (Samsung) for use in digital camcorders. For the year ended December 31, 2003 Samsung and JVC accounted for 33% and 12%, respectively, of our total revenues. For the year ended December 31, 2002 Samsung, JVC and Panasonic accounted for 26%, 15%, and 13% of our total revenues, respectively. For the year ended December 31, 2001 sales to Samsung and Panasonic accounted for 22% and 15%, respectively, of our total revenues.

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Industry Overview

III-V Products

Heterojunction Bipolar Transistors

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

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

Even as device manufacturers are increasingly adopting gallium arsenide field effect transistor technology in the manufacture of high frequency integrated circuits, the industry is calling for even greater performance. Second generation wireless communications products use digital signal processing and generally operate at higher cellular frequencies. Air interface standards in these frequency bands have increased in recent years. These standards, which include Global System Mobile, or GSM, Time Division Multiple Access, or TDMA, and Code Division Multiple Access, or CDMA, provide improved capacity, sound quality and capabilities at cellular and wireless frequency bands, but are incompatible with each other and have fragmented the market for equipment. Suppliers of wireless handsets now offer multi-mode and multi-band wireless handsets that allow users to switch from one high frequency band to another to enable consumers to use wireless handsets across various territories and different interface standards. This new generation of products is significantly more complex than the prior generation and requires certain key features, including:

- Simpler system design;
- Support for higher frequencies;
- Lower power consumption;
- Improved signal quality; and
- Wider range of operating temperatures.

CyberLites™

The first commercial LEDs were introduced in the 1960's using gallium arsenide on gallium arsenide substrates. In the late 1970's and early 1980's aluminum gallium arsenide on gallium arsenide substrate LEDs were developed for infrared applications such as remote controls. In the mid 1980's a red LED with twice the efficiency of previous LEDs was created by developing a double heterostructure aluminum gallium arsenide on gallium arsenide substrate. Efficiency is a measure of the amount of power required to produce a given brightness and is measured in terms of luminous efficacy.

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In the late 1980's as a result of further growth technique developments and the addition of a reflector to collect light from the back of the LED chip the efficiency of LEDs again doubled and high brightness LEDs (HBLEDs) were introduced. The late 1980's also saw the introduction of blue LEDs based on silicon carbide substrates.

In the early 1990's, blue LEDs made from gallium nitride on sapphire substrates were introduced. Since the introduction of blue LEDs considerable advancements have taken place including the use of a single-quantum well structure in place of the double heterostructure.

In the mid 1990's pure green LEDs were introduced. This was an important development as the full spectrum of colors using red, green and blue (RGB) was superior to that available from cathode ray tubes (CRTs) using phosphors. The availability of the full spectrum of colors from LEDs allowed for the development of full-color LED displays and signs, including those suitable for outdoor use. The applications using LEDs continue to grow as their efficiency improves, brightness increases and their selling prices decline.

CyberDisplay™ Products

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

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

- *Passive Matrix LCD.* These displays are primarily used in calculators, watches, pagers and wireless handsets because of their relatively low cost and low power consumption. Their relatively low image quality, slow response time and limited viewing angle, however, make them inadequate for many demanding applications.
- *Active Matrix LCD.* These displays are used primarily in laptop computers, instrumentation and projection systems. In contrast to passive matrix LCDs, monochrome active matrix LCDs incorporate a transistor at every pixel location and color active matrix LCDs incorporate three transistors at every pixel location. This arrangement allows each pixel to be turned on and off independently which improves image quality and response time and also provides an improved side-to-side viewing angle of the display. The increased number of transistors required to produce those benefits, however, creates significant drawbacks, particularly in color applications. The high number of transistors used in conventional active matrix LCDs limits achievable pixel density and their relatively high power consumption makes them difficult to use in high information content ultra-portable electronics products.

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

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Our Solution

III-V Products

Heterojunction Bipolar Transistors

We manufacture our HBT transistor wafers using our proprietary metal organic chemical vapor deposition (MOCVD) semiconductor growth techniques and our Wafer Engineering™ process. Our Wafer Engineering™ process significantly reduces the number of defects which naturally occur when different semiconductor materials are combined. By depositing films of atomic-level thickness on gallium arsenide or indium phosphide wafers, we are able to create HBT transistor wafers that consist of a series of material layers which form a vertical transistor. This transistor structure enables the design of integrated circuits in which individual transistors are vertically arranged.

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

- ***Smaller Size.*** We believe integrated circuits fabricated from our HBT transistor wafers can be made smaller than integrated circuits fabricated from gallium arsenide field effect transistors. Smaller size enables more die per wafer, which can increase manufacturing yields and lead to reduced costs.
- ***Faster Circuits.*** We believe our HBT transistor wafers enable the design of faster integrated circuits than may be designed with gallium arsenide field effect transistors because the effective transistor gate length, or the distance an electron must travel within a transistor, is shorter. The transistor gate length of gallium arsenide field effect transistors is constrained by current optical lithography techniques to approximately 0.13 microns for commercial volumes. We currently manufacture our HBT transistor wafers in commercial volumes with an effective transistor gate length ranging from approximately 0.05 microns to 0.1 microns. We are able to achieve this result because the thickness of the vertical base layer of our HBT transistor wafers determines transistor gate length rather than the limitations of current optical lithography techniques.

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

- ***Greater Power Efficiency.*** Efficiency is a measure of power output as a percentage of battery power consumed by the device. We believe our HBT transistor wafers are more efficient and use less power to transmit the same output power than comparable gallium arsenide field effect transistors. Increased efficiency can translate into improved battery life and increased talk time.
- ***Improved Signal Quality.*** Power amplifiers within wireless handsets are a key determinant of signal quality. We believe that power amplifiers based on our HBT transistor wafers can amplify signals with reduced distortion, providing increased signal quality. Improved signal quality is important for wireless networks that use digital air interface standards such as Time Division Multiple Access, or TDMA, and Code Division Multiple Access, or CDMA.
- ***Less Complexity.*** Power amplifiers and other integrated circuits based on our HBT transistor wafers run on a single power supply voltage. In contrast, gallium arsenide field effect transistors generally require both a positive and negative power supply, which results in the need to include a negative voltage generator and other additional components or circuitry. As a result, we believe integrated circuits using our HBT transistor wafers are easier to design, which can translate into reduced component costs and smaller equipment.

CyberLites™

We have been developing a LED which is created by depositing gallium nitride compounds grown on aluminum oxide (sapphire) substrates by similar MOCVD, Wafer Engineering™ and quality control processes

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used to produce Kopin's HBT transistor wafers. We are therefore able to leverage off of our existing infrastructure and know how. To create our CyberLite LED we refined the process to take advantage of the area between the defects, which we call NanoPockets™. Our NanoPocket™ technology enables us to produce blue LEDs as bright as those commercially available but which can be operated at lower voltages. The lower voltage requirement of our LEDs offers advantages for portable products which rely on batteries for a power source.

Conventional LEDs contain active indium gallium nitride layers of uniform thickness, whereas nanostructured LEDs contain active layers with a periodic thickness variation. This periodic thickness variation creates NanoPockets™ whose dimensions range from 50 to 100 nanometers and thickness from one to two nanometers. The active carriers are confined in these nanopockets where radiative recombination of electrons and holes result in efficient light emission. The carriers in the nanopockets do not encounter defects such as dislocations which act as nonradiative recombination centers and annihilate them.

CyberDisplay™ Products

Our principal CyberDisplay product is a miniature, 0.24 inch diagonal, high density 320 x 240 resolution color or monochrome active matrix LCD. In contrast to current passive matrix and active matrix LCD approaches, our CyberDisplay products utilize high quality, single crystal silicon—the same high quality silicon used in conventional integrated circuits. This single crystal silicon is not grown on glass; rather, it is first formed on a silicon wafer and then lifted off as a thin film using our proprietary Wafer Engineering™ technology. The thin film is patterned into an integrated circuit (including the active matrix, driver circuitry and other logic circuits) in an integrated circuit foundry and transferred to glass, so that the transferred layer is a fully functional active matrix integrated circuit.

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

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

Our use of high quality single crystal silicon in the manufacture of our CyberDisplay products offers several performance advantages. High quality silicon enables high speed displays which operate up to 240 frames per second, compared to 60 frames per second for most active matrix LCDs. At this higher cycle speed we are able to produce full color displays without using color filters. Our color CyberDisplay products generate colors by using either color sequential technology whereby a backlight composed of three LEDs emit a sequence of red, green and blue light or using color filters with a white backlight. In color sequential technology each pixel either blocks or transmits the colored light 180 times per second, which allows the generation of color images without using three separate pixels, decreasing the size, weight, and power requirements of the color display. Furthermore, the color pixels are not spatially separated as in conventional active matrix LCDs, resulting in sharper color images. Color filter technology is a process in which display pixels are patterned with materials which selectively absorb or transmit the red, green or blue colors of light.

Our CyberDisplay products have the additional advantage of being fabricated using conventional silicon integrated circuit lithography processes. These processes enable the manufacture of miniature active matrix

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circuits, resulting in comparable or higher resolution displays relative to passive and other active matrix displays that are fabricated on glass. Our production partner, United Microelectronics Corporation, or UMC, fabricates integrated circuits for our CyberDisplay products in its foundry in Taiwan. The fabricated wafers are then returned to our facilities, where we lift the integrated circuits off the silicon wafers and transfer them to glass using our proprietary technology. The transferred integrated circuits are then processed and packaged with liquid crystal and assembled into display panels at either our Westborough, Massachusetts facility or at our Korean subsidiary, Kowon Technology Co., Ltd. (Kowon) and shipped to customers. This arrangement allows us to benefit from UMC's economies of scale and advanced fabrication processes. We expect our CyberDisplay products will benefit from further general technological advances in the design and production of integrated circuits and active matrix LCDs, resulting in further improvements in resolution and miniaturization.

Strategy

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

- *Increase the Number of Product Designs That Use Our Components.* Our goal is to grow sales of our components by increasing the number and type of products into which they are incorporated. Our product lines are subject to long design lead-times and we work closely with our customers to help them design and develop cost-effective products based on our III-V and CyberDisplay products. We use an aggressive pricing strategy as an inducement for manufacturers of consumer electronics and wireless communications products to integrate our products into their products.
- *Reduce Production Costs.* We intend to reduce our per unit production costs primarily through increasing manufacturing yield and by lowering fixed costs per unit through increased sales volume.
- *Maintain Our Technological Leadership.* We believe our ability to develop innovative products based on our extensive materials science expertise enhances our opportunity to grow within our targeted markets. By continuing to invest in research and development, we are able to add to our expertise in the design of HBT transistor wafers, CyberLite LEDs and innovative, high-resolution, miniature flat panel displays. We intend to continue to focus our development efforts on our proprietary HBT transistor wafers, CyberLite LEDs and miniature displays.
- *Leverage Integrated Circuit and Display Technologies and Infrastructure.* We will continue to leverage our use of standard integrated circuit fabrication and LCD packaging technologies to achieve greater production capacity and to reduce capital investment and process development costs. Our use of these technologies allows us to engage third party manufacturers for certain fabrication of our CyberDisplay products and to take advantage of new technologies, cost-efficiencies and increased production capabilities of these third party manufacturers. We believe that general technological advances in the design and fabrication of integrated circuits, LCD technology and LCD manufacturing processes will allow us to continue to enhance our CyberDisplay product manufacturing process.

Markets and Customers

III-V Products

Heterojunction Bipolar Transistors

We develop and manufacture customer and application specific HBT transistor wafers for advanced integrated circuit applications. We believe we are one of the world's leading suppliers of HBT transistor wafers and currently support volume production of three-inch, four-inch and six-inch HBT transistor wafers. Our primary HBT transistor wafer product is based on an aluminum gallium arsenide vertical layer structure. We also

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supply customers with HBT transistor wafers based on an indium gallium phosphide vertical layer structure. We vary our manufacturing process to create customized HBT transistor wafer products for customers. For the years ended December 31, 2003, 2002 and 2001, sales of III-V products accounted for 43%, 43%, and 55% of our revenues, respectively.

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

In addition to wireless handset power amplifiers, our HBT transistor wafers are also being used in the fabrication of power amplifiers for devices which communicate using wireless fidelity or “WiFi” integrated circuits. Our HBT transistor wafers are also used in high speed fiber optic switching equipment used in broadband Internet data transmission wireless local area network chipsets (WLAN) and high speed instrumentation. Since 2001 there has been a significant decline in sales of our III-V products into the high speed fiber optic switching equipment market. This equipment has historically been used for the long haul fiber optic networks which some analysts believe have significant over-capacity. Accordingly, we do not expect sales into this market will be significant in the year ending December 31, 2004.

We design our HBT transistor wafers in collaboration with our customers’ engineering teams in order to create customized products that meet their specific application needs. Once our HBT transistor wafers have been “designed in” a customer’s product, we believe it would be costly for that customer to switch to an alternate supplier. In 2002, Conexant Systems merged its wireless division with Alpha Industries to create Skyworks Solutions, Inc., our largest customer for our HBT transistor wafers. Other customers of our gallium arsenide products include ANADIGICS, Mitsubishi Electric Co., Ltd., Triquint Semiconductor and Toshiba. For the years ended December 31, 2003, 2002 and 2001, sales of gallium arsenide products to newly created Skyworks Solutions on a pro forma basis, assuming the merger occurred on January 1, 2001, would have accounted for approximately 20%, 26% and 24% of our total revenues, respectively. We anticipate that sales of our HBT transistor wafers to Skyworks Solutions will continue to represent a significant portion of our revenues for the near future.

CyberLites™

We are initially targeting our CyberLite LEDs at mobile applications, such as wireless devices, which are battery operated and therefore require low power components. Future markets include backlighting for automotive dashboards and other consumer products, indoor and outdoor full color displays, traffic signals and other indicator lights for consumer and industrial applications.

Longer term opportunities include solid state lighting (SSL). SSL based upon LEDs offers an entirely new lighting paradigm, compared to existing incandescent lighting. SSL efficiency is expected to reach 200 lumens per watt compared to incandescent lighting whose efficiency is approximately 20 lumens per watt. SSL lighting turns on instantaneously and maintains color when dimmed. The color is dynamically adjustable and LEDs can be integrated with silicon microelectronic devices creating smart lights. The power consumption of SSL is expected to be an order of magnitude lower than incandescent lighting with a life expectancy over 20 years.

Customers for LEDs are located throughout the world with Asia being the largest market.

CyberDisplay™ Products

We currently sell our CyberDisplay products to customers either as a single component, together with a lens and backlight as a unit or as a complete module, which includes the display, lens and backlight, which are

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assembled by us in a plastic housing. We provide our CyberDisplay products to Samsung, JVC and Panasonic for use in digital camcorders. In addition, we are actively working with numerous other customers to develop additional and new applications for our CyberDisplay products.

In order for our CyberDisplay products to function properly in their intended applications, integrated circuit chip sets generally are required. Several companies have designed integrated circuit chip sets to work with our CyberDisplay products. Motorola, for instance, has designed the integrated circuit chip set currently used with our CyberDisplay product in camcorders by some customers. Other companies are designing integrated circuit chip sets based on our CyberDisplay products for use in camcorders and other consumer electronics products.

For the years ended December 31, 2003, 2002 and 2001 sales to Samsung, as a percentage of total revenue were 33%, 26% and 22%, respectively. For the years ended December 31, 2003 and 2002 sales to JVC, as a percentage of total revenue were 12% and 15%, respectively. For the years ended December 31, 2002 and 2001 sales to Panasonic, as a percentage of sales, were 13% and 15%, respectively.

For the years ended December 31, 2003, 2002, and 2001, revenues from multiple contracts with various U.S. governmental agencies accounted for approximately 2%, 3%, and 3%, respectively, of our total revenues.

Sales and Marketing

We principally sell our HBT transistor wafer products directly to integrated circuit manufacturers in the United States, Europe and Asia. We sell our CyberDisplay products directly to original equipment manufacturers. We are targeting Asian LED packaging companies as customers for our CyberLite products. Sales of our HBT transistor wafers and our CyberDisplay products to customers in Japan are made primarily through foreign distributors. Sales of our CyberLite products are made both directly by us and through distributors.

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

Our design and engineering staff is actively involved with a customer during all phases of prototype design and production by providing engineering data, up-to-date product application notes, regular follow-up and technical assistance. In most cases, our technical staff works with each customer in the development stage to identify potential improvements to the design of the customer's product in parallel with the customer's effort. We have established a prototype product design group in Scotts Valley, California to assist our CyberDisplay customers to incorporate our products into their own and to reduce the time required to bring end products to the marketplace. This group helps customers accelerate their design process, achieve cost-effective and manufacturable designs, and ensure a smooth transition into high volume production. This group is also actively involved with research and development contracts for military applications.

Product Development

We believe that continued introduction of new products in our target markets is essential to our growth. We have assembled a group of highly skilled engineers who work internally as well as with our customers to continue our product development efforts. For the years ended December 31, 2003, 2002, and 2001 we incurred total research and development expenses of \$13.5 million, \$16.2 million, and \$15.3 million, respectively. Research and development expenses related to our internal development programs for our III-V, CyberDisplay and other products were \$11.7 million, \$13.1 million, and \$12.9 million, respectively, for the years ended December 31, 2003, 2002, and 2001.

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III-V Products

Heterojunction Bipolar Transistors

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

CyberLites™

In 2000, we acquired Super Epitaxial Products, Inc. (SEP). SEP, which subsequently was renamed Kopin Optical, Inc., provided us with expertise in gallium nitride, which was the initial technology we used to develop our CyberLite LED. We plan to develop additional colors, increase the brightness and improve other performance characteristics of our LEDs.

CyberDisplay™ Products

Our product development efforts are focused towards continually enhancing the features, functions and manufacturability of our CyberDisplay products. A principal focus of this effort is the improvement of manufacturing processes for very small active matrix pixels, which we will use in succeeding generations of our CyberDisplay products. The pixel size of our current CyberDisplay products is 15 microns and we believe that we will be able to achieve a pixel size of less than 10 microns in commercial production. This pixel size is in contrast to a pixel size of approximately 100 microns in a typical laptop computer display. The resolution of the current commercially available CyberDisplay products are 173 x 218, 320 x 240, 640 x 480 and 1,280 x 1,024. In addition, we have demonstrated 2,560 x 2,048 resolution CyberDisplay products in a 1.5 inch diagonal display. We are also working on further decreasing the already low power consumption of our CyberDisplay products. During 2002 we introduced CyberDisplay products which create color using color filter technology. Previously we achieved color using a process called color sequential. Additional display development efforts include expanding the resolutions offered, further automating our final display assembly processes and increasing the quantity of CyberDisplay active matrix pixel arrays processed on each transistor by further reducing the display size and increasing manufacturing yields.

Funded Research and Development

We have entered into various development contracts with agencies of the U.S. government. These contracts help support the continued development of our core technologies. We intend to continue to pursue other U.S. government development contracts for applications that relate to our commercial product applications. Our contracts with U.S. government agencies contain certain milestones relating to technology development and may be terminated by the government agencies prior to completion of funding. Our policy is to retain our proprietary rights with respect to the principal commercial applications of our technology. To the extent technology development has been funded by a U.S. federal agency, under applicable U.S. federal laws the federal agency has the right to obtain a non-exclusive, non-transferable, irrevocable, fully-paid license to practice or have practiced this technology for governmental use. Revenues attributable to research and development contracts for the years ended December 31, 2003, 2002, and 2001 totaled \$1.7 million, \$2.0 million, and \$1.7 million, respectively.

Competition

III-V Products

Heterojunction Bipolar Transistor

With respect to our HBT transistor wafers, we presently compete with several companies, including Epitronics, Emcore, V-PEC, ProCom and Hitachi Cable, as well as integrated circuit manufacturers with in-

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house transistor growth capabilities, such as RF Micro Devices and Fujitsu. In the gallium arsenide HBT transistor wafer market, competition is increasingly intense as a result of the downturn in the wireless and fiber optic network industries which has resulted in significant manufacturing overcapacity and lower pricing. The production of gallium arsenide integrated circuits has been and continues to be more costly than the production of silicon integrated circuits. Although we have reduced production costs of our HBT transistor wafers by achieving higher volumes and reducing raw material costs, we can not be certain we will be able to continue to decrease production costs. In addition, we believe the costs of producing gallium arsenide integrated circuits by our customers will continue to exceed the costs associated with the production of competing silicon integrated circuits. As a result, we must target markets where these higher costs are justified by their superior performance.

CyberLites™

The LED market is highly competitive with many producers all over the world, including Nichia Corporation and Toyoda Gosei in Japan, Agilent, Lumileds and Cree in the United States of America, Osram Opto Semiconductors in Europe, and Epistar and United Epitaxy Corporation in Taiwan. These competitors have varying degrees of integration ranging from fully integrated to distinct production such as LED chip manufacturing, LED packaging and surface mounted display manufacturing. We are engaging in the production of LED chips which are sold to packaging companies which in turn sell to original equipment or original device manufactures for incorporation into devices such as wireless handsets. LED pricing is projected to decline significantly over the next several years.

CyberDisplay™ Products

The display market is highly competitive and is currently dominated by large Asian electronics companies including Sharp, Hitachi, Seiko, Toshiba, Sony, NEC, Sanyo and Display Technologies, a joint venture of IBM and Toshiba. The display market consists of multiple segments, each focusing on different end-user applications applying different technologies. Competition in the display field is based on price and performance characteristics, product quality and the ability to deliver products in a timely fashion. The success of our display product offerings will also depend upon the adoption of our CyberDisplay products in the industry as an alternative to traditional active matrix LCDs and upon our ability to compete against other types of well-established display products. We cannot be certain that we will be able to compete against these companies and technologies.

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

Patents, Proprietary Rights and Licenses

An important part of our product development strategy is to seek, when appropriate, protection for our products and proprietary technology through the use of various United States and foreign patents and contractual arrangements. We intend to prosecute and defend our proprietary technology aggressively. We own more than 90 issued United States patents and more than 40 pending United States patent applications. Many of these United States patents and applications have counterpart foreign patents, foreign applications or international applications through the Patent Cooperation Treaty. In addition, we are licensed by MIT under more than 20 issued United States patents, 1 pending United States patent application, and some foreign counterparts to these United States patents and applications. Our United States patents expire at various dates through May 2021. The United States patents licensed to us by MIT expire at various dates through October 2014.

In 1985, we obtained a license from MIT to certain patents and patent applications directed to device wafers and related technology. The license grants to us a worldwide license to make, have made, use, and sell products

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covered by the licensed patents for the life of these patents. The license was exclusive with respect to commercial applications until April 22, 1999, and became non-exclusive at that time. In 1995, we obtained an additional license to certain optical technology from MIT. The license grants to us a worldwide license to make, have made, use, lease and sell products covered by the licensed patents until 2007.

The process of seeking patent protection can be time consuming and expensive and we cannot be certain that patents will be issued from currently pending or future applications or that our existing patents or any new patents that may be issued will be sufficient in scope or strength to provide meaningful protection or any commercial advantage to us. We may be subject to or may initiate interference proceedings in the United States Patent and Trademark Office, which can demand significant financial and management resources. Patent applications in the United States typically are maintained in secrecy until they are published eighteen months after their earliest claim to priority and since publication of discoveries in the scientific and patent literature lags behind actual discoveries, we cannot be certain that we were the first to conceive of inventions covered by pending patent applications or the first to file patent applications on such inventions. We cannot be certain that our pending patent applications or those of our licensors will result in issued patents or that any issued patents will afford protection against a competitor. In addition, we cannot be certain that others will not obtain patents that we would need to license, circumvent or cease manufacturing and sales of products covered by these patents, nor can we be sure that licenses, if needed, would be available to us on favorable terms, if at all.

We cannot be certain that foreign intellectual property laws will protect our intellectual property rights or that others will not independently develop similar products, duplicate our products or design around any patents issued to us. Our products might infringe the patent rights of others, whether existing now or in the future. For the same reasons, the products of others could infringe our patent rights. We may be notified, from time to time, that we could be or we are infringing certain patents and other intellectual property rights of others. Litigation, which could be very costly and lead to substantial diversion of our resources, even if the outcome is favorable, may be necessary to enforce our patents or other intellectual property rights or to defend us against claimed infringement of the rights of others. These problems can be particularly severe in foreign countries. In the event of an adverse ruling in litigation against us for patent infringement, we might be required to discontinue the use of certain processes, cease the manufacture, use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to patents of third parties covering the infringing technology. We cannot be certain that licenses will be obtainable on acceptable terms, or at all, or that damages for infringement will not be assessed or that litigation will not occur. The failure to obtain necessary licenses or other rights or litigation arising out of any such claims could adversely affect our ability to conduct our business as we conduct it.

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

Government Regulations

We are subject to a variety of federal, state and local governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing process. The failure to comply with present or future regulations could result in fines being imposed on us, suspension of production or cessation of operations. Any failure on our part to control the use of, or adequately restrict the

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discharge of, hazardous substances, or otherwise comply with environmental regulations, could subject us to significant future liabilities. In addition, we cannot be certain that we have not in the past violated applicable laws or regulations, which violations could result in required remediation or other liabilities. We also cannot be certain that past use or disposal of environmentally sensitive materials in conformity with then existing environmental laws and regulations will protect us from required remediation or other liabilities under current or future environmental laws or regulations.

Investments in Related Businesses

In 1997 we invested in a privately held company, Kendin Communications Inc. (Kendin), a developer and manufacturer of silicon integrated circuits for high speed data and network communications. At December 31, 2000, we had a 20% interest in Kendin, which we accounted for using the equity method and which had a carrying value of \$3.2 million. In the second quarter of 2001, we exchanged our 20% interest in Kendin for 986,054 shares of Micrel Incorporated (Micrel) as part of Micrel's acquisition of Kendin. At the date of the exchange the closing price of Micrel's common stock was \$29.31 per share and we recorded a gain of \$24.6 million as a result of this exchange in the quarter ended June 30, 2001. During the third quarter of 2001 the Company sold 200,000 shares of Micrel and recorded a gain of approximately \$700,000.

We have accounted for our investment in Micrel common stock as available-for-sale securities since the receipt of Micrel shares.

In the second quarter of 2002 we received an additional 115,448 shares of Micrel which had been held in escrow. In addition, in the second and fourth quarters of 2002 we sold 249,448 and 150,000 shares, respectively, of Micrel. As a result of these transactions we recorded losses of approximately \$101,000 and \$2.5 million in the second and fourth quarters, respectively, of 2002. 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 we recognized an other than temporary impairment charge of \$10.2 million to record the Micrel investment at fair value.

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

Since the receipt of the Micrel shares we have sold approximately 700,000 shares for total proceeds of \$13.4 million. As of December 31, 2003 we held approximately 400,000 shares of Micrel common stock, valued at \$6.2 million.

In 2000, we acquired Super Epitaxial Products, Inc. (SEP) in a transaction accounted for as a purchase. Under the terms of the agreement, we issued approximately 1.68 million shares of our common stock and assumed the obligation to issue our common stock to satisfy existing SEP options, with an aggregate total value of approximately \$24.0 million, in exchange for all the outstanding SEP common stock. We consolidated the financial statements of SEP with our financial statements beginning in the fourth quarter of 2000.

In 2000, we made an investment of \$5.1 million and contributed certain technology for which we received a 40% interest in Kopin Taiwan Corporation (KTC), a Taiwan company. We account for our percent ownership interest in the operating results of this company using the equity method. For the years ended December 31, 2003, 2002 and 2001 we had sales of approximately \$2.3 million, \$392,000 and \$145,000, respectively, to KTC. For the years ended December 31, 2003 and 2002 we had purchases of approximately \$1.0 million and \$10,000, respectively, from KTC. For the years ended December 31, 2003, 2002 and 2001, we recorded losses of \$1.4 million, \$949,000 and \$468,000, respectively, which represented our ownership percentage of KTC's operating results. The carrying value of this investment at December 31, 2003 was approximately \$878,000. Dr. Hsieh, one of our Directors, is chairman of KTC. Dr. Hsieh owns approximately 1% of the outstanding common stock of the venture.

Since 1998 we have made investments totaling \$4.3 million in Kowon Technology Co. LTD (Kowon), a manufacturer of optoelectronic products located in South Korea, and have accumulated an ownership interest of

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73%. Kowon's revenues are principally denominated in U.S. dollars and its expenses are denominated in South Korean won which are subject to exchange rate fluctuations. Kowon is an integral part of our CyberDisplay assembly process, performing most of the backend packaging processes to complete the display.

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

Employees

As of December 31, 2003, our consolidated business employed 411 full-time and 7 part-time individuals. Of these, 20 hold Ph.D. degrees in Material Science, Electrical Engineering or Physics. Our management and professional employees have significant prior experience in semiconductor materials, device transistor and display processing, manufacturing and other related technologies. None of our employees are covered by a collective bargaining agreement. We consider relations with our employees to be good.

Web Availability

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

Item 2. *Properties*

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

Our CyberDisplay production facility occupies 74,000 square feet in Westborough, Massachusetts, of which 10,000 square feet consist of contiguous environmentally controlled production clean rooms, of which 7,000 square feet are Class 10. We occupy our Westborough facility under a lease that expires in April 2008.

In addition to our Massachusetts facilities, we lease a 5,800 square foot design facility in Scotts Valley, California for developing prototypes of products incorporating our CyberDisplay product. This facility is occupied under a lease that expires in October 2007. We also lease a 7,500 square foot facility in Maryland under a lease which expires in August 2005. Our subsidiary, Kowon Technology Co., LTD, owns two facilities in Kyungii-Do, South Korea, in which it manufactures its optoelectronic products and in which its corporate headquarters are located. These facilities occupy an aggregate of 28,000 square feet.

Item 3. *Legal Proceedings*

We may become engaged in legal proceedings arising in the ordinary course of business from time to time. We currently are not a party to any material legal proceedings other than ordinary routine litigation incidental to our business.

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

Not applicable.

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EXECUTIVE OFFICERS OF KOPIN

Our executive officers, who are appointed on an annual basis to serve at the discretion of our Board of Directors, are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
John C.C. Fan	60	President and Chief Executive Officer; Chairman of the Board of Directors
Richard A. Sneider	43	Treasurer and Chief Financial Officer
Bor-Yeu Tsaur	48	Executive Vice President—Display Operations
Hong Choi	52	Chief Technology Officer and Vice President
Daily S. Hill	47	Senior Vice President—Gallium Arsenide Operations
Matthew J. Micci	47	Vice President—Sales, Gallium Arsenide Products

John C.C. Fan, President, Chief Executive Officer, Chairman of the Board of Directors. Dr. Fan, one of our founders, has served as our Chief Executive Officer and Chairman of our Board of Directors since April 1984. He has also served as our President since July 1990. Prior to July 1985, Dr. Fan was Associate Leader of the Electronic Materials Group at MIT Lincoln Laboratory. Dr. Fan is the author of numerous patents and scientific publications. Dr. Fan received a Ph.D. in Applied Physics from Harvard University.

Richard A. Sneider, Treasurer and Chief Financial Officer. Mr. Sneider has served as our Treasurer and Chief Financial Officer since September 1998. Mr. Sneider is a Certified Public Accountant and was formerly a partner of the international public accounting firm, Deloitte & Touche LLP, where he worked for sixteen years.

Bor-Yeu Tsaur, Executive Vice President—Display Operations. Dr. Tsaur joined us as Executive Vice President—Display Operations in July 1997. From 1993 to 1997, Dr. Tsaur served as Group Leader, Electronic Material Group, at MIT Lincoln Laboratory. Dr. Tsaur received a Ph.D. in Electrical Engineering from the California Institute of Technology.

Hong Choi, Chief Technology Officer and Vice President. Dr. Choi joined us as Chief Technology Officer in July 2000. Previously, Dr. Choi served as Senior Staff Member at MIT Lincoln Laboratory, where he worked for seventeen years. Dr. Choi received a Ph.D. in Electrical Engineering from the University of California, Berkeley.

Daily S. Hill, Senior Vice President—Gallium Arsenide Operations. Mr. Hill has served as Vice President—Gallium Arsenide Operations since July 1997 and was promoted to Senior Vice President in 2002. From December 1995 to June 1997, Mr. Hill served as our Director of Gallium Arsenide Operations. From November 1987 to January 1995, Mr. Hill served as a manager of our HBT transistor wafer product group.

Matthew J. Micci, Vice President—Sales, Gallium Arsenide Products. Mr. Micci joined us in January 1988 as Regional Director of Sales and became Vice President, Sales in July 1990. Prior to joining us, Mr. Micci worked for ten years for Texas Instruments Semiconductor Group.

In August 2001, our officers adopted trading plans under Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended, which provide for the periodic sales of shares of the Company's common stock.

Part II

Item 5. Market for Registrant’s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities.

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

	<u>High</u>	<u>Low</u>
Fiscal Year Ended December 31, 2002		
First Quarter	\$14.60	\$7.32
Second Quarter	9.62	6.05
Third Quarter	7.47	3.94
Fourth Quarter	5.77	2.00
Fiscal Year Ended December 31, 2003		
First Quarter	\$ 5.27	\$3.75
Second Quarter	6.73	4.40
Third Quarter	9.51	6.14
Fourth Quarter	8.35	5.13

As of December 31, 2003, there were approximately 514 stockholders of record of our common stock, which does not reflect those shares held beneficially or those shares held in “street” name.

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

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2003 about shares of the Company’s common stock outstanding and available for issuance under our existing equity compensation plans.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders(1)	8,402,479	\$ 9.52	836,495(3)
Equity compensation plans not approved by security holders(2)	1,035,868	\$ 5.05	4,494
Total	<u>9,438,347</u>	<u>\$ 9.03</u>	<u>840,989</u>

- (1) Column (a) consists of the 1992 Stock Option Plan, 2001 Equity Incentive Plan and the Director Stock Option Plan.
- (2) Consists solely of the 2001 Supplemental Equity Incentive Plan, which does not require the approval of, and has not been approved by, the Company’s stockholders.
- (3) Includes 716,495 options available under the 2001 Equity Incentive Plan and 120,000 options available under the Director Stock Option Plan.

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Item 6. Selected Financial Data

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Net Product revenues	\$ 74,883	\$ 74,808	\$ 50,257	\$ 90,963	\$ 36,126
Research and development revenues	1,669	1,993	1,664	1,635	2,536
Total revenues	76,552	76,801	51,921	92,598	38,662
Expenses:					
Cost of product revenues	59,954	57,553	62,369	66,184	26,280
Research and development—funded programs	1,823	3,098	2,381	1,217	2,858
Research and development—internal(1)	11,701	13,093	12,891	13,835	4,262
Selling, general and administrative	10,245	9,956	15,245	9,928	5,757
Other	481	266	771	534	366
Impairment charge	—	—	5,342	—	—
	84,204	83,966	98,999	91,698	39,524
Income (loss) from operations	(7,652)	(7,165)	(47,078)	900	(862)
Other income (expense), net	1,646	(11,126)	24,759	5,567	1,728
Income (loss) before minority interest	(6,005)	(18,291)	(22,320)	6,467	865
Minority interest in income of subsidiary	(873)	(1,038)	(393)	(174)	(90)
Income (loss) before cumulative effect of accounting change	(6,878)	(19,329)	(22,713)	6,293	775
Cumulative effect of accounting change	—	(12,582)	—	—	—
Net income (loss)	\$ (6,878)	\$ (31,911)	\$ (22,713)	\$ 6,293	\$ 775
Income (loss) before cumulative effect of accounting change per share:					
Basic	\$ (.10)	\$ (.28)	\$ (.34)	\$.10	\$.01
Diluted	\$ (.10)	\$ (.28)	\$ (.34)	\$.09	\$.01
Cumulative effect of accounting change per share:					
Basic	\$ —	\$ (.18)	\$ —	\$ —	\$ —
Diluted	\$ —	\$ (.18)	\$ —	\$ —	\$ —
Net income (loss) per share:					
Basic	\$ (.10)	\$ (.46)	\$ (.34)	\$.10	\$.01
Diluted	\$ (.10)	\$ (.46)	\$ (.34)	\$.09	\$.01
Weighted average number of common shares outstanding:					
Basic	69,540	69,318	65,947	62,976	51,763
Diluted	69,540	69,318	65,947	67,728	56,322

	December 31,				
	2003	2002	2001	2000	1999
Balance Sheet Data:					
Cash and equivalents and marketable securities	\$120,333	\$117,991	\$104,435	\$ 73,180	\$ 99,099
Working capital	116,507	115,847	106,431	88,337	106,481
Total assets	174,820	174,566	203,649	184,491	145,074
Long-term obligations (excluding current maturities)	—	—	—	1,250	2,567
Stockholders' equity	153,737	156,918	184,331	166,777	130,067

- (1) Includes \$7.4 million of costs associated with the acquisition of Super Epitaxial Products, Inc. (SEP) in 2000. These costs consisted of \$5.3 million of in-process research and development associated with products under development by SEP at the acquisition date and \$2.1 million of other costs, primarily bonuses paid to SEP employees as an inducement to remain with us after the acquisition.

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

Management's discussion and analysis of our financial condition and results of operation are based upon our consolidated financial statements, which have been audited in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements require us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, investment valuations and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions.

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

Revenue Recognition

We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). SAB 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred and services rendered; (3) the price to the buyer is fixed or determinable; and (4) collectibility is reasonably assured. 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.

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. 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 for estimated obsolescence or unmarketable inventory based on assumptions about future demand and market conditions. If actual demand and market conditions are less favorable than those projected by management additional inventory write downs may be required.

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Investment Valuation

We periodically make equity investments. We provide for allowances against these investments 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 an impairment valuation if we believe a decline in the value of an investment is other than temporary.

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

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.

Results of Operations

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

The year ending December 31, 2004 is referred to as "2004", the year ended December 31, 2003 is referred to as "2003", the year ended December 31, 2002 is referred to as "2002", and the year ended December 31, 2001 is referred to as "2001".

We have two principal sources of revenues: product revenues and research and development revenues. Product revenues consist of sales of our CyberDisplay products and our III-V products, principally gallium arsenide ("GaAs") HBT transistor wafers. Research and development revenues consist primarily of development contracts with agencies of the U.S. government. Research and development revenues were \$1.7 million, or 2.2% of total revenues in 2003, \$2.0 million, or 2.6% of total revenues in 2002, and \$1.7 million, or 3.2% of total revenues in 2001.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues. Our total revenues for 2003 were \$76.6 million compared to \$76.8 million in 2002. For 2003, III-V and CyberDisplay revenues were \$32.9 million and \$43.6 million, respectively versus \$32.7 million and \$44.1 million, respectively, for 2002. The increase in III-V revenues in 2003 compared to 2002 resulted from the introduction of our light emitting diode (LED) products which offset a decrease in demand in 2003 from customers who buy our HBT transistor wafers for integration into components used in wireless handsets. The decrease in CyberDisplay revenues in 2003 compared to 2002 resulted primarily from a decline in research and development contract revenue and a decline in the average selling price of our monochrome displays which was partially offset by higher unit sales. We anticipate the average selling price of our monochrome displays and HBT transistor wafers to continue to decline.

We believe we have captured significant market share in the markets of the applications which currently use HBT transistor wafers and CyberDisplay products, principally wireless handsets and camcorders, and we will

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need to increase sales in other applications to generate revenue growth in these product lines. In addition, we will need to successfully transition customers who currently buy monochrome displays for camcorder applications to purchase color displays, which we introduced in 2003, in order to retain our CyberDisplay camcorder customers.

International sales represented 54.8% and 61.3% of revenues for 2003 and 2002, respectively. International sales are primarily sales of CyberDisplay 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 Technology Co., LTD. Kowon's sales are primarily denominated in U.S. dollars. However, Kowon's operating costs are primarily 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 of the relatively stable exchange rate between the Japanese yen, Korean won and the U.S. dollar.

Cost of Product Revenues. Cost of product revenues, which is comprised of materials, labor and manufacturing overhead related to our products, was \$60.0 million for 2003 compared to \$57.6 million for 2002, an increase of approximately \$2.4 million or 4.2%. Cost of product revenues as a percent of sales for 2003 and 2002 was 80.1% and 76.9%, respectively. The increase in cost of product revenues as a percentage of product sales is a result of manufacturing inefficiencies associated with the introduction of our LED products and a decline of display revenues as a percentage of total revenues. The LED inefficiencies primarily result from an under utilization of manufacturing capacity. In 2003 and 2002 we invested in increasing our LED capacity. We currently do not sell sufficient amounts of LEDs for the LED product line to have a positive gross margin. In addition, gross margins were negatively impacted by lower display revenues as a percentage of total revenues because display products have higher gross margins than our III-V products.

Research and Development. Research and development expenses are incurred in support of internal display and III-V product development programs or programs funded by agencies of the U.S. government and commercial partners. Research and development costs include staffing, purchases of materials and laboratory supplies, circuit design costs, fabrication and packaging of display products, and overhead. Funded research and development expenses were \$1.8 million in 2003 as compared to \$3.1 million for 2002, a decrease of \$1.3 million.

Internal research and development expenses were \$11.7 million in 2003 compared to \$13.1 million for 2002. Internal research and development expenses were primarily attributed to the development of our new III-V products, LEDs and color filter displays.

Selling, General and Administrative. Selling, general and administrative expenses consist of the expenses incurred by our sales and marketing personnel and related expenses, and administrative and general corporate expenses. S,G&A expenses were \$10.2 million in 2003 compared to \$10.0 million for 2002, an increase of \$0.2 million, or 2.0%. The increase in S,G&A expense from the corresponding prior year is principally the result of an increase in insurance costs and professional fees resulting from the implementation of the Sarbanes-Oxley Act of 2002. In addition, in the second quarter of 2003, we increased our investment in Kowon, our Korean subsidiary, by acquiring an additional 5% ownership for \$900,000. We determined that \$258,000 of the \$900,000 represented compensation expense to previous management owners of the 5% equity interest and it was expensed in S,G&A.

In 2003, we issued 272,500 restricted stock awards to certain employees of the Company. Each award requires the employee to fulfill certain obligations including remaining employed by the Company for periods of either two or four years (the "Restriction Period"). In connection with the issuance of the awards the Company

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recorded a deferred compensation expense of \$1,442,000, which will be amortized over the Restriction Period. Included in S,G&A for the year ended 2003 was non-cash amortization expense of \$19,621.

Other. Other expenses, primarily amortization of patents and licenses, were \$481,000 for 2003 compared to \$266,000 for 2002.

Other Income and Expense, Net. Other income and expense, net was an income of \$1.6 million for 2003 compared to a loss of \$11.1 million for 2002. In the second quarter of 2001, we exchanged our 20% interest in Kendin Communications, Inc. (Kendin) for approximately 1.0 million shares of Micrel Incorporated (Micrel) as part of Micrel's acquisition of Kendin. Our investment in Kendin had a carrying value of \$3.2 million at December 31, 2000. At the date of the exchange the closing price of Micrel's common stock was \$29.31 per share and we recorded a gain of \$24.6 million as a result of this exchange in the quarter ended June 30, 2001. During the third quarter of 2001 the Company sold 200,000 Micrel shares and recorded a gain of approximately \$700,000.

We have accounted for our investment in Micrel as available-for-sale securities since the receipt of Micrel shares.

In the second quarter of 2002 we received an additional 115,448 shares of Micrel which had been held in escrow. In addition, during the second and fourth quarters of 2002 we sold 249,448 and 150,000 shares, respectively, of Micrel. As a result of these transactions we recorded losses of approximately \$101,000 and \$2.5 million in the second and fourth quarters, respectively. 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 we recognized an other than temporary impairment charge of \$10.2 million in the Statement of Operations.

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

Since the receipt of the Micrel shares we have sold approximately 700,000 shares for total proceeds of \$13.4 million. As of December 31, 2003 we held approximately 400,000 shares of Micrel common stock, valued at \$6.2 million.

Other income and expense, net also includes interest income of \$2.8 million for 2003 compared to \$2.8 million for 2002. In 2003 and 2002 we also recorded losses of \$1.4 million and \$949,000, respectively, which represent recognition of equity losses on our 40% investment in Kopin Taiwan Corp. In 2003 we had a net loss of \$115,000 of foreign exchange losses.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenues. Our total revenues for 2002 were \$76.8 million compared to \$51.9 million in 2001, an increase of approximately \$24.9 million or 47.9%. For 2002, III-V and CyberDisplay revenues were \$32.7 million and \$44.1 million, respectively, versus \$28.3 million and \$23.6 million, respectively, for 2001. The increase in III-V product revenues in 2002 compared to 2001 resulted from an increase in demand in 2002 from customers who buy our HBT transistor wafers for integration into components used in wireless handsets. Demand in 2002 also benefited on a comparative basis from the prior year because 2001 demand was affected by a build up of HBT inventory at our customers in 2000 which they used in 2001 and reduced 2001 HBT demand accordingly. The increase in CyberDisplay product revenues in 2002 compared to 2001 resulted primarily from an increase in demand from existing customers who use our display in camcorders.

International sales represented 61.3% and 57.3% of revenues for 2002 and 2001, respectively. International sales are primarily sales of CyberDisplay products to consumer electronic manufacturers primarily located in Japan and Korea.

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Cost of Product Revenues. Cost of product revenues, which is comprised of materials, labor and manufacturing overhead related to our products, was \$57.6 million for 2002 compared to \$62.4 million in 2001, a decrease of approximately \$4.8 million or 7.7%. Cost of product revenues as a percent of sales for 2002 and 2001 were 76.9% and 124.1%, respectively. The decrease in cost of product revenues as a percentage of sales is a result of the fixed cost nature of our business whereby our fixed production costs per unit decline as sales unit volume increases, declines in raw material costs, particularly gallium arsenide wafers, and labor productivity increases.

Research and Development. Research and development expenses are incurred in support of internal display and III-V product development programs or programs funded by agencies of the U.S. government and commercial partners. Research and development costs include staffing, purchases of materials and laboratory supplies, circuit design costs, fabrication and packaging of display products, and overhead. Funded research and development expenses were \$3.1 million for 2002 compared to \$2.4 million in 2001, an increase of \$.7 million.

Internal research and development expenses were \$13.1 million for 2002 compared to \$12.9 million in 2001. Internal research and development expenses were primarily attributed to the development of our new III-V product, light emitting diodes.

Selling, General and Administrative. Selling, general and administrative expenses consist of the expenses incurred by our sales and marketing personnel and related expenses, and administrative and general corporate expenses. S,G,& A expenses were \$10.0 million for 2002 compared to \$15.2 million in 2001, a decrease of \$5.2 million, or 34.7%. The reduction in S,G&A expense from the corresponding prior year is principally the result of discontinuing goodwill amortization of approximately \$2.2 million, as required by Statement of Financial Accounting Standards No. 142, and lower legal and patent maintenance fees of \$1.5 million and bad debt expenses of \$1.0 million. In addition, S,G,&A expenses include non-cash charges for compensation expense of \$55,015 in 2001 relating to the issuance of certain stock options.

We completed the transfer of technology from our Columbia, Maryland facility to our Taunton, Massachusetts facility and closed the Columbia, Maryland facility in 2002. Charges in 2001 for the estimated remaining lease payments under the lease of this facility of \$200,000 and the writedown of the unamortized cost of Equipment and Improvements at this facility of \$1.8 million were recorded in the accompanying financial statements.

Impairment Charge. In 1999 and early 2000 as a result of actual and forecasted demand, we expanded our production capacity in our III-V product line. As a result of a decline in our revenues during the second quarter of 2001, we reviewed our capacity against revised forecasted demand and assessed the recoverability of certain machines used in our III-V manufacturing operations. Based on these forecasts, we did not believe these machines would be placed back into service in the foreseeable future; we anticipate these machines would be replaced by newer, more efficient equipment before demand would recover. As a result of our analysis, and other analyses pertaining to the impact of the change in business conditions, we recorded a charge of \$5.3 million in the second quarter of 2001 representing the remaining unamortized cost of the identified equipment and other costs.

Other. Other expenses, primarily amortization of patents and licenses, were \$266,000 for 2002 compared to \$771,000 in 2001.

Other Income and Expense, Net. Other income and expense, net was a loss of \$11.1 million for 2002 compared to income of \$24.8 million for 2001. In the second quarter of 2001, we exchanged our 20% interest in Kendin Communications, Inc. (Kendin) for approximately 1.0 million shares of Micrel Incorporated (Micrel) as part of Micrel's acquisition of Kendin. Our investment in Kendin had a carrying value of \$3.2 million at December 31, 2000. At the date of the exchange the closing price of Micrel's common stock was \$29.31 and we recorded a gain of \$24.6 million as a result of this exchange in the quarter ended June 30, 2001. During the third quarter of 2001 the Company sold 200,000 Micrel shares and recorded a gain of approximately \$700,000.

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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. In November 2001 we filed a registration statement using a “shelf” registration process that we may, from time to time, offer shares of common stock or debt securities, the aggregate total of which will not exceed \$150.0 million. As of December 31, 2003 we had issued 3,000,000 shares for \$42.0 million and reduced the amount available under the registration statement to \$108.0 million. We believe our available cash resources will support our operations and capital needs for at least the next twelve months.

As of December 31, 2003, we had cash and equivalents and marketable securities of \$120.3 million and working capital of \$116.5 million compared to \$118.0 million and \$115.8 million, respectively, as of December 31, 2002. The increase in cash and equivalents and marketable securities was primarily due to cash provided by operating activities of \$6.6 million and proceeds from the exercise of stock options of \$1.5 million and sale of Micrel stock for \$1.2 million offset by capital expenditures of \$5.4 million and the purchase of additional shares of our Korean subsidiary, Kowon, of \$900,000. The increase in cash and equivalents and marketable securities was favorably impacted by approximately \$3.3 million due to an increase at December 31, 2003 as compared to December 31, 2002 in accounts payable and accrued expense amounts. The increase in the accounts payable and accrued expense balances were primarily the result of the timing of payments at year end.

The Company has entered into a non-cancelable agreement with a vendor to purchase \$6.3 million worth of product during the year ending December 31, 2004.

In October 2003 we amended a supply agreement with a significant HBT customer that now expires in July 2006. Under the terms of this agreement we agreed to maintain capacity levels for manufacturing HBT wafers and we committed to a pricing schedule under certain circumstances. The agreement also requires us to give prior notice if we exit our HBT product line. In consideration for this agreement the customer agreed to source 100% of its HBT wafer needs from us subject to the customer’s right to source HBT wafers from other sources if we are unable to meet their requirements under certain circumstances. We agreed that failure to meet our supply obligations under the agreement would allow our customer to obtain court ordered specific performance and if we do not perform we could then be liable for monetary damages up to a maximum of \$45,000,000.

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 Scotts Valley lease expires in 2007. The Maryland lease expires in 2005.

We expect to expend between \$5.0 and \$7.0 million on capital expenditures over the next twelve months, primarily for the acquisition of equipment relating to the production of our III-V and CyberDisplay products.

On October 9, 2002, we authorized the re-purchase of up to \$15 million of our common stock over a two year period. We had not repurchased any common stock through December 31, 2003.

As of December 31, 2003, we had tax loss carryforwards of approximately \$50.0 million, which may be used to offset future federal taxable income through 2019.

Recent Accounting Pronouncements

In April 2003, The Financial Accounting Standards Board (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. We do not expect the adoption of SFAS No. 149 will have an effect on our consolidated financial statements.

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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. We do not expect that the adoption of SFAS No. 150 will have an effect on our consolidated financial statements.

Seasonality

Our business has not historically been seasonal in nature because we have been increasing our market share in certain products. However, the markets we sell into are traditionally seasonal and we would expect that as our business matures, our third quarter would be our strongest sales quarter followed by our second quarter then our fourth quarter and our first quarter would be our lowest sales quarter. 2003 did not follow this pattern as our third quarter was impacted by a decline in demand from a large HBT customer. In the third quarter we negotiated a new supply agreement with this customer whereby they would source 100% of their HBT requirements from us. In conjunction with this agreement the HBT customer consumed its remaining inventory of HBT product, which it had previously purchased from other vendors, which lowered its demand for our HBT product in the third quarter of 2003.

Inflation

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

Contractual Obligations

The following is a summary of our contractual payment obligations for operating leases and purchase obligations as of December 31, 2003:

<u>Contractual Obligations</u>	<u>Total</u>	<u>1-2 Years</u>	<u>3-5 Years</u>	<u>Thereafter</u>
Operating Lease Obligations	\$ 6,523,414	\$3,056,890	\$3,026,524	\$440,000
Purchase Obligations	6,300,000	6,300,000	—	—
	<u>\$12,823,414</u>	<u>\$9,356,890</u>	<u>\$3,026,524</u>	<u>\$440,000</u>

Item 7A. 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 \$6.2 million which is subject to changes in value because of either specific operating issues at Micrel or an overall changes in the stock market. We are exposed to changes in foreign currency exchange rates primarily through our translation of our foreign subsidiary's financial position, results of operations, and transaction gains and losses as a result of non U.S. dollar denominated cashflows related to business activities in Asia. We do not believe that changes in currency will have a material impact on our financial position.

RISK FACTORS

This Form 10-K 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 below.

We have experienced a history of losses and have a significant accumulated deficit. Since inception, we have incurred significant net operating losses. As of December 31, 2003 we had an accumulated deficit of \$111.9 million. We cannot assure investors that we will achieve profitability in the future.

Our revenue and cash flow could be negatively affected by the loss of any of the few customers who account for a substantial portion of our revenues. A few customers account for a substantial portion of our revenues. The table below indicates what percentage of our total revenues from a particular customer were 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. 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	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. We believe the average sales price of our monochrome displays will continue to decline. 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

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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 will 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 never produced displays which provide color images in volume. 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.

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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.

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

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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 have never manufactured CyberLite™ products in volume and may not be able to achieve sales or production volume. We anticipate our CyberLite products will be very important to our revenue growth and to achieving profitability. However, we have never manufactured our CyberLite products in volume. 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 experienced in 2003. We currently do not sell our CyberLite products in sufficient volume to cover our operating costs. Failure to achieve high sales volume production at acceptable prices will affect our revenue growth, our ability to become profitable and acceptance of our CyberLite products. Further, even if we are able to achieve volume production we may not be able to do so in a cost effective manner, which would 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 take an impairment charge on the long-lived assets used in the production of CyberLite products. We currently have approximately \$18 million of equipment used in the production of CyberLite LEDs.

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 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 now expires in July 2006. Under the terms of this agreement we agreed to maintain capacity levels for manufacturing HBT wafers and we committed to a pricing schedule under certain circumstances. The agreement also requires us to give prior notice if we exit our HBT product line. In consideration for this agreement the customer agreed to source 100% of its HBT wafer needs from us subject to the customer's right to source HBT wafers from other sources if we are unable to meet their requirements under certain circumstances. We agreed that failure to meet our supply obligations under the agreement would allow our customer to obtain court ordered specific performance. If we do not perform we could then be liable for monetary damages up to a maximum of \$45 million. The agreement obligates us to provide wafers at preset prices and as a result, our ability to make a profit under this agreement will be subject to fluctuations in the prices of raw materials and to any increase in costs of goods or services requires for us to perform under the agreement. If we are unable to manufacture the HBT wafers below these preset prices we may not be able to achieve 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;

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- 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 are developing an internal facility to manufacture our CyberLite LED products. 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 III-V 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.

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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 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 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.

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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. Due to a significant slowdown in the wireless and fiber optic communication markets and other general economic conditions, our sales declined in 2001. 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.

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Item 8. *Financial Statements and Supplementary Data*

The financial statements required by this Item are incorporated in this Report on pages 36 through 52. Reference is made to Item 15 of this Report.

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

Not Applicable.

Item 9a. *Controls and Procedures*

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's chief executive officer and chief financial officer by others within those entities, particularly 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 the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Part III

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

(a) *Directors.* The information with respect to directors required by this item is incorporated herein by reference from our Proxy Statement relating to our Annual Meeting of Shareholders to be held on April 21, 2004 (the “Proxy Statement”).

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

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

(d) *Code of Ethics .* The Company has adopted a Code of Business Conduct and Ethics (“the Code”) that applies to all of the Company’s employees (including its executive officers) and directors. The Code is available on the Company’s website at www.kopin.com. The Company intends to satisfy the disclosure requirement regarding any waiver of a provision of the Code applicable to any executive officer or director, by posting such information on such website. The Company shall provide to any person without charge, upon request, a copy of the Code. Any such request must be made in writing to the Company, c/o Investor Relations, Kopin Corporation, 200 John Hancock Road, Taunton, MA 02780.

The Company’s corporate governance guidelines and the charters of the audit committee, compensation committee and nominating and corporate governance committee of the Board of Directors are available on the Company’s website at www.kopin.com. The Company shall provide to any person without charge, upon request, a copy of any of the foregoing materials. Any such request must be made in writing to the Company, c/o Investor Relations, Kopin Corporation, 200 John Hancock Road, Taunton, MA 02780.

Item 11. *Executive Compensation*

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

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

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

Item 13. *Certain Relationships and Related Transactions*

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

Item 14. *Principal Accountant Fees and Services*

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

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Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Documents filed as part of the Report:

(1) Consolidated Financial Statements:

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(2) Financial Statement Schedules:

Schedule II—Valuation and Qualifying Accounts

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

(3) Exhibits

3.1	Amended and Restated Certificate of Incorporation	(2)
3.2	Amendment to Certificate of Incorporation	(7)
3.3	Amendment to Certificate of Incorporation	(7)
3.4	Second Amended and Restated By-laws	(10)
4	Specimen Certificate of Common Stock	(1)
10.1	Form of Employee Agreement with Respect to Inventions and Proprietary Information	(1)
10.2	1985 Incentive Stock Option Plan, as amended	(1)*
10.3	Amended and Restated 1992 Stock Option Plan	(2)*
10.4	1992 Stock Option Plan Amendment	(7)*
10.5	1992 Stock Option Plan Amendment	(8)*
10.6	2001 Equity Incentive Plan	(9)*
10.7	Kopin Corporation 2001 Equity Incentive Plan Amendment	
10.8	2001 Supplemental Equity Incentive Plan	(8)*
10.9	Form of Key Employee Stock Purchase Agreement	(1)*
10.10	License Agreement by and between the Company and Massachusetts Institute of Technology dated April 22, 1985, as amended	(1)
10.11	Facility Lease, by and between the Company and Massachusetts Technology Park Corporation, dated October 15, 1993	(3)
10.12	Master Sublease—Purchase Agreement, by and between the Company and Massachusetts Industrial Finance Agency, dated June 23, 1994	(4)

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10.13	Contract by and between the Company and the United States Department of Commerce, dated April 25, 1995	(5)
10.14	Cooperative Research and Development Agreement, by and between the Company and Massachusetts Institute of Technology Lincoln Laboratory, dated June 21, 1995 (confidential portions on file with the Commission)	(5)
10.15	Letter Agreement, by and between the Company and United Microelectronics Corporation, dated November 29, 1995 (confidential portions on file with the Commission)	(5)
10.16	Joint Venture Agreement, by and among the Company, Kowon Technology Co., Ltd., and Korean Investors, dated as of March 3, 1998	(6)
10.17	Fifth Amended and Restated Employment Agreement between the Company and Dr. John C.C. Fan, dated as of February 20, 2004	
21.1	Subsidiaries of Kopin Corporation	
23.1	Consent of Deloitte & Touche LLP, Independent Auditors of the Company	
31.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
31.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

* Management contract or compensatory plan required to be filed as an Exhibit to this Form 10-K pursuant to Item 15(c) of this Report.

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

(b) *Reports on Form 8-K:*

In a Form 8-K furnished to the SEC on October 23, 2003, the Registrant reported under Item 12 “Disclosure of Results of Operations and Financial Condition” a press release in which it announced its financial results for the quarterly period ended September 27, 2003.

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Kopin Corporation
Taunton, Massachusetts

We have audited the accompanying consolidated balance sheets of Kopin Corporation and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Kopin Corporation and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill and intangibles in 2002, to conform to Statements of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

/s/ D ELOITTE & T OUCHE LLP

Boston, Massachusetts
March 5, 2004

KOPIN CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2003	2002
ASSETS		
Current assets:		
Cash and equivalents	\$ 29,144,578	\$ 35,297,639
Marketable securities, at fair value	91,188,610	82,693,673
Accounts receivable, net of allowance of \$1,200,000 in 2003 and 2002	6,771,391	6,680,538
Inventory	5,920,364	4,773,333
Prepaid expenses and other current assets	1,451,374	1,118,944
Total current assets	134,476,317	130,564,127
Property, plant and equipment:		
Land	805,528	802,171
Buildings	2,130,400	2,016,474
Equipment	61,442,351	55,552,926
Leasehold improvements	13,396,112	13,304,865
Furniture and fixtures	284,894	185,002
Equipment under construction	257,404	1,259,690
Total	78,316,689	73,121,128
Accumulated depreciation and amortization	(47,308,286)	(38,372,767)
Total	31,008,403	34,748,361
Other assets	9,335,749	8,773,040
Intangible assets, net	—	480,866
Total assets	\$ 174,820,469	\$ 174,566,394
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,442,184	\$ 7,414,774
Accrued payroll and expenses	2,224,928	2,105,206
Accrued warranty	1,030,000	830,000
Billings in excess of revenue earned	1,378,970	1,108,180
Other accrued liabilities	2,893,502	3,259,200
Total current liabilities	17,969,584	14,717,360
Minority interest in subsidiary	3,113,728	2,931,366
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$.01 per share: Authorized, 3,000 shares; none issued	—	—
Common stock, par value \$.01 per share: Authorized, 120,000,000 shares; issued, 70,044,960 shares in 2003 and 69,391,349 shares in 2002	700,449	693,913
Additional paid-in capital	263,165,884	260,253,567
Deferred compensation	(1,421,904)	—
Accumulated other comprehensive income	3,213,838	1,013,040
Accumulated deficit	(111,921,110)	(105,042,852)
Total stockholders' equity	153,737,157	156,917,668
Total liabilities and stockholders' equity	\$ 174,820,469	\$ 174,566,394

See notes to consolidated financial statements.

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KOPIN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31,		
	2003	2002	2001
Revenues:			
Net product revenues	\$74,883,122	\$ 74,808,368	\$ 50,256,711
Research and development revenues	1,669,106	1,992,751	1,663,610
	76,552,228	76,801,119	51,920,321
Expenses:			
Cost of product revenues	59,954,229	57,553,577	62,368,663
Research and development-funded programs	1,822,793	3,097,648	2,380,712
Research and development-internal	11,701,241	13,093,257	12,890,983
Selling, general, and administrative	10,244,767	9,955,712	15,245,176
Other	480,864	265,850	771,387
Impairment charge	—	—	5,341,784
	84,203,894	83,966,044	98,998,705
Loss from operations	(7,651,666)	(7,164,925)	(47,078,384)
Other income and expense:			
Interest and other income	3,477,273	3,424,981	25,733,103
Interest and other expense	(1,830,875)	(14,551,282)	(974,476)
	(6,005,268)	(18,291,226)	(22,319,757)
Minority interest in income of subsidiary	(872,990)	(1,037,709)	(393,631)
	(6,878,258)	(19,328,935)	(22,713,388)
Cumulative effect of accounting change	—	(12,582,383)	—
	—	(12,582,383)	—
Net Loss	\$(6,878,258)	\$(31,911,318)	\$(22,713,388)
Loss before cumulative effect of accounting change per share:			
Basic	\$ (.10)	\$ (.28)	\$ (.34)
Diluted	\$ (.10)	\$ (.28)	\$ (.34)
Cumulative effect of accounting change per share:			
Basic	\$ —	\$ (.18)	\$ —
Diluted	\$ —	\$ (.18)	\$ —
Net Loss per share:			
Basic	\$ (.10)	\$ (.46)	\$ (.34)
Diluted	\$ (.10)	\$ (.46)	\$ (.34)
Weighted average number of common shares outstanding:			
Basic	69,540,201	69,317,695	65,946,964
Diluted	69,540,201	69,317,695	65,946,964

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Years ended December 31,		
	2003	2002	2001
Net loss	\$(6,878,258)	\$(31,911,318)	\$(22,713,388)

Foreign currency translation adjustments	62,322	630,363	(86,900)
Holding gain (loss) on marketable securities	2,138,476	331,631	(2,611,172)
Reclassifications of losses in net income	—	2,420,723	—
	<u> </u>	<u> </u>	<u> </u>
Comprehensive loss	<u>\$ (4,677,460)</u>	<u>\$ (28,528,601)</u>	<u>\$ (25,411,460)</u>

See notes to consolidated financial statements.

KOPIN CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount					
Balance, January 1, 2001	64,681,116	\$646,811	\$ 216,274,520	\$ (55,015)	\$ 328,395	\$ (50,418,146)	\$166,776,565
Issuance of common net of issuance costs of \$1,340,563	3,000,000	30,000	38,259,437	—	—	—	38,289,437
Exercise of stock options	1,364,416	13,644	4,607,761	—	—	—	4,621,405
Amortization of compensation relating to grant of stock options	—	—	—	55,015	—	—	55,015
Net unrealized holding loss on marketable securities	—	—	—	—	(2,611,172)	—	(2,611,172)
Foreign currency translation adjustments	—	—	—	—	(86,900)	—	(86,900)
Net loss	—	—	—	—	—	(22,713,388)	(22,713,388)
Balance, December 31, 2001	69,045,532	690,455	259,141,718	—	(2,369,677)	(73,131,534)	184,330,962
Exercise of stock options	345,817	3,458	1,111,849	—	—	—	1,115,307
Net unrealized holding gain on marketable securities	—	—	—	—	2,752,354	—	2,752,354
Foreign currency translation adjustments	—	—	—	—	630,363	—	630,363
Net loss	—	—	—	—	—	(31,911,318)	(31,911,318)
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	381,111	3,811	1,473,517	—	—	—	1,477,328
Issuance of restricted stock	272,500	2,725	1,438,800	(1,441,525)	—	—	—
Amortization of deferred compensation	—	—	—	19,621	—	—	19,621
Net unrealized holding gain on marketable securities	—	—	—	—	2,138,476	—	2,138,476
Foreign currency translation adjustments	—	—	—	—	62,322	—	62,322
Net loss	—	—	—	—	—	(6,878,258)	(6,878,258)
Balance, December 31, 2003	70,044,960	\$700,449	\$ 263,165,884	\$ (1,421,904)	\$ 3,213,838	\$(111,921,110)	\$153,737,157

See notes to consolidated financial statements.

KOPIN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net loss	\$ (6,878,258)	\$(31,911,318)	\$(22,713,388)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	9,674,928	11,917,833	11,200,790
Minority interest in income of subsidiary	872,990	1,037,709	473,281
Net loss (gain) on investment transactions	(305,922)	12,828,300	(13,734,091)
Equity in loss in affiliate	1,365,824	949,480	—
Amortization of deferred compensation	19,621	—	55,015
Cumulative effect of accounting change	—	12,582,383	—
Impairment charge	—	—	5,341,784
Facility closure charge	—	—	1,820,740
Changes in assets and liabilities:			
Accounts receivable	(83,988)	710,100	7,543,111
Inventory	(1,139,054)	4,103,405	(3,395,011)
Prepaid expenses and other current assets	(508,221)	2,677,857	7,518,726
Accounts payable and accrued expenses	3,303,630	(3,833,384)	3,406,807
Billings in excess of revenue earned	270,790	1,108,180	—
Net cash provided by (used in) operating activities	<u>6,592,340</u>	<u>12,170,545</u>	<u>(2,482,236)</u>
Cash flows from investing activities:			
Marketable securities	(8,905,483)	(52,352,745)	29,560,475
Other assets	(116,549)	378,134	220,702
Proceeds from sale of investments	1,202,922	5,751,027	282,071
Purchase of investments	(987,401)	(1,310,644)	(69,330)
Capital expenditures	(5,436,023)	(5,191,683)	(6,997,226)
Net cash provided by (used in) investing activities	<u>(14,242,534)</u>	<u>(52,725,911)</u>	<u>22,996,692</u>
Cash flows from financing activities:			
Proceeds from exercise of stock options	1,477,328	1,115,307	4,621,405
Net proceeds from issuance of common stock	—	—	38,289,437
Principal payments on long-term obligations	—	—	(2,250,000)
Net cash provided by financing activities	<u>1,477,328</u>	<u>1,115,307</u>	<u>40,660,842</u>
Effect of exchange rate changes on cash	19,805	311,845	(82,418)
Net increase (decrease) in cash and equivalents	(6,153,061)	(39,128,214)	61,092,880
Cash and equivalents:			
Beginning of period	35,297,639	74,425,853	13,332,973
End of period	<u>\$ 29,144,578</u>	<u>\$ 35,297,639</u>	<u>\$ 74,425,853</u>
Supplementary cash flow information:			
Interest paid in cash	\$ —	\$ —	\$ 189,185

See notes to consolidated financial statements.

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

Reference herein to “2003”, “2002” and “2001” are for and as of the fiscal years ended December 31, 2003, 2002 and 2001.

Industry Segment

Kopin Corporation and its subsidiaries (the “Company”) operate in one industry segment reporting to the chief operating decision makers of the Company. Accordingly, the segment disclosures contemplated by Statement of Financial Accounting Standards No. 131, “Disclosures About Segments of an Enterprise and Related Information” are not applicable.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and Kowon Technology Co., Ltd., a majority owned (73%) subsidiary located in Korea. All intercompany transactions and balances have been eliminated. In 2003 the Company increased its ownership percentage of Kowon from 67% to 73% for \$900,000. Investments in business entities in which the company does not have control, but has the ability to exercise significant influence over operating and financial policies (generally 20-50 percent ownership), are accounted for by the equity method. Other investments are accounted for by the cost method.

Revenue Recognition

Product revenue is recognized when a written order is received from the customer, the related product is delivered or when a service is performed, and collectibility of the related receivable is considered probable. The Company’s products generally must meet defined specifications. The Company does not recognize revenue for products prior to customer acceptance unless the Company believes the product meets all customer specifications and has a history of consistently achieving customer acceptance of the product. For certain of our products, we provide customers with a twelve month warranty from the date of sale. Estimated sales return and warranty reserves are provided at the time of sale based upon historical and anticipated sales returns and warranty costs.

Revenue from long-term research and development contracts is recognized on the percentage-of-completion method of accounting as work is performed, based upon the ratio that incurred costs or hours bear to estimated total completion cost or hours. 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. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is recognized in the financial statements. Amounts earned on contracts in progress in excess of the billings of such contracts are classified as unbilled receivables and amounts received in excess of amounts earned are classified as billings in excess of revenue earned. Unbilled receivables primarily result from the time necessary to accumulate costs, including costs incurred by subcontractors, for invoice preparation after the work has been performed by us. Unbilled receivables are billed based on dates stipulated in the related agreement or in periodic installments based upon our monthly invoicing cycle.

Research and Development Costs

Research and development expenses, which are expensed as incurred, include costs incurred in support of internal development programs and programs funded by agencies of the federal government, including

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

development programs for display devices and products, device wafers, circuit design costs, staffing, purchases of materials and laboratory supplies, and fabrication and packaging of our display products.

Cash and Equivalents and Marketable Securities

The Company considers all highly liquid, short-term debt instruments with a maturity of three months or less at the date of purchase to be cash equivalents.

Marketable securities consist primarily of commercial paper, medium-term notes, and United States government and agency securities. The Company classifies marketable securities included in Current Assets as “available-for-sale” and accordingly carries them at fair value. The Company’s investment in Micrel, Inc. is included in Other Assets and is classified as “available-for-sale” and carried at fair value. From time to time, the Company sells marketable securities for working capital, capital expenditure and investment purposes. Substantially all the marketable securities mature within one year. Gross unrealized holding gains or losses are recorded in accumulated other comprehensive income.

Investments in available-for-sale marketable securities are as follows:

	Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	
	December 31,		December 31,		December 31,		December 31,	
	2003	2002	2003	2002	2003	2002	2003	2002
U.S. government and agency securities	\$62,360,803	\$82,266,845	\$ 89,520	\$426,828	\$276,001	—	\$62,174,322	\$82,693,673
Corporate debt	28,909,004	—	105,284	—	—	—	29,014,288	—
Total available-for-sale securities	\$91,269,807	\$82,266,845	\$194,804	\$426,828	\$276,001	—	\$91,188,610	\$82,693,673

The gross gains and losses realized related to sales of marketable securities were not material. The Company uses the specific identification method as a basis for determining cost and calculating realized gains and losses.

Inventory

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

	2003	2002
Raw materials	\$4,276,433	\$3,080,000
Work in process	1,066,877	1,041,759
Finished goods	577,054	651,574
	\$5,920,364	\$4,773,333

Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, generally 3 to 10 years, or, in the case of leasehold improvements and leased equipment, over the term of the lease.

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Intangible Assets

The Company accounts for intangibles in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. Costs of internally developing, maintaining, or restoring intangible assets that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to the Company as a whole, are recognized as an expense when incurred. Acquired intangible assets are recorded at fair value. Intangible assets are amortized on a straight-line basis over the estimated useful life unless that life is determined to be indefinite. At December 31, 2002 the Company had net intangible assets of \$480,866, which represented the unamortized cost of patents and application fees. As of December 31, 2003 these costs were fully amortized.

Foreign Currency Translation

Assets and liabilities of non-U.S. operations are translated into U.S. dollars at year end exchange rates, and revenues and expenses at average rates prevailing during the year. Resulting translation adjustments are accumulated as part of accumulated other comprehensive income and aggregate \$648,536 and \$586,212 of unrealized gains at December 31, 2003 and 2002, respectively. Transaction gains or losses are recognized in income or loss currently.

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.

Concentration of Credit Risk

The Company primarily invests its excess cash in government and corporate financial instruments, which bear lower levels of relative credit risk. The Company sells its products to customers worldwide. The Company maintains a reserve for potential credit losses.

Fair Value of Financial Instruments

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

Stock-Based Compensation

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, to stock-based employee 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, 2002, and 2001: no expected dividend yield; expected volatility of 72.69% in 2003, 72.69% in 2002, and 72.75% in 2001; risk-free interest rate of 4.25% in 2003, 3.82% in 2002, and 5.02% in 2001; and expected lives of four years. The weighted-average fair value of options on grant date was \$3.13 in 2003, \$2.77 in 2002, and \$4.29 in 2001.

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Years ended December 31,		
	2003	2002	2001
Net loss, as reported	\$ (6,878,258)	\$(31,911,318)	\$(22,713,388)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards	(9,349,981)	(10,317,319)	(10,819,612)
Pro forma net loss	\$(16,228,239)	\$(42,228,637)	\$(33,533,000)
Earning per share:			
Basic, as reported	\$ (.10)	\$ (.46)	\$ (.34)
Basic, pro forma	\$ (.23)	\$ (.61)	\$ (.51)
Diluted, as reported	\$ (.10)	\$ (.46)	\$ (.34)
Diluted, pro forma	\$ (.23)	\$ (.61)	\$ (.51)

Deferred Compensation

Deferred compensation is related to compensatory stock options and common stock awards under the company's 1992 Stock Option Plan and its 2001 Equity Incentive Plan and is amortized over vesting periods ranging from two to four years .

Impairment Charge

The carrying value of long-lived assets are periodically reviewed 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.

During 2001, as a result of a decline in the Company's revenues, the Company assessed the recoverability of certain equipment used in its manufacturing operations. This equipment consisted primarily of manufacturing machines used in the Company's III-V business. Because of the reduced demand for the Company's HBT wafer products, the machines were not being used in the manufacturing operations and it did not appear these machines would be placed back into service in the foreseeable future. As a result of this analysis, and other analyses pertaining to the impact of the change in business conditions, the Company recorded a charge of approximately \$5,342,000 in the second quarter primarily representing the remaining unamortized cost of the identified equipment.

Facilities Closure

In 2001, we completed the transfer of technology from our Columbia, Maryland facility to our Taunton, Massachusetts facility and decided to close the Columbia, Maryland facility. Charges in 2001 for the estimated remaining lease payments under the lease of this facility of \$200,000 and the writedown of the unamortized cost of equipment and improvements at this facility of \$1,800,000 were recorded.

New Accounting Pronouncements

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. This statement changed the accounting for goodwill and indefinite-lived intangible assets from an amortization

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

approach to an impairment-only approach. As a result of the adoption of SFAS No. 142, the Company recorded a transitional goodwill impairment charge of \$12.6 million, which is presented as a cumulative effect of accounting change in the consolidated statements of operations. The Company estimated the fair value of the impacted reporting unit using a discounted cash flow model.

Effective with the adoption of SFAS No. 142 goodwill amortization was discontinued. Goodwill amortization for periods prior to January 1, 2002 is included in selling, general and administrative expenses. The following tables reconcile net loss and per share results adjusted for the implementation of SFAS No. 142 for all periods presented:

	2003	2002	2001
Net loss	\$(6,878,258)	\$(31,911,318)	\$(22,713,388)
Cumulative effect of accounting change		12,582,383	—
	(6,878,258)	(19,328,935)	(22,713,388)
Loss before effect of accounting change	—	—	2,165,983
Add back: goodwill amortization			
	\$(6,878,258)	\$(19,328,935)	(20,547,405)
Loss before effect of accounting change			
	—	—	—
	2003	2002	2001
Net loss per share:			
Basic	\$ (.10)	\$ (.46)	(.34)
Diluted	\$ (.10)	\$ (.46)	(.34)
Effect of accounting change per share:			
Basic	\$ —	\$.18	.03
Diluted	\$ —	\$.18	.03
Loss before effect of accounting change per share:			
Basic	\$ (.10)	\$ (.28)	(.31)
Diluted	\$ (.10)	\$ (.28)	(.31)

In April 2003, the Financial Accounting Standards Board (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. We do not expect the adoption of SFAS No. 149 will have an effect 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. We do not expect that the adoption of SFAS No. 150 will have an effect on our consolidated financial statements.

2. Other Current and Non-Current Assets

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

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 for the years ended December 31, 2003, 2002 and 2001. Since the receipt of the Micrel shares the Company has sold approximately 700,000 shares for total proceeds of \$13,443,000. As of December 31, 2003, the Company held approximately 400,000 shares of Micrel common stock with a market value of \$6,155,000.

Non-Marketable Securities

At December 31, 2003, the Company has a 40% interest in Kopin Taiwan Corp (KTC), which was accounted for using the equity method and had a carrying value of \$878,000. For the years ended December 31, 2003, 2002 and 2001 the Company had sales of approximately \$2,709,000, \$392,000 and \$145,000, respectively, to KTC. For the years ended December 31, 2003 and 2002 the Company had purchases of approximately \$970,000 and \$10,000, respectively, from KTC. For the years ended December 31, 2003, 2002 and 2001 we recorded losses of \$1,364,000, \$949,000 and \$468,000, respectively, in interest and other expense, net, which represented our ownership percentage of KTC's operating results. At December 31, 2003 and 2002, the Company was owed approximately \$496,000 and \$80,000, respectively, from KTC. One of the Company's Directors is chairman of KTC and owns approximately 1% of the outstanding common stock of KTC.

At December 31, 2003, the Company had an investment in a company with a carrying value of approximately \$1,625,000. The Company's Chief Executive Officer is a founder and board member of this company and owns approximately 7.0% 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 1.5%.

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

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Also during 2001, the Company recorded a \$5,667,000 write-down of certain non-marketable securities as a result of a more than temporary decline in their value.

3. Stockholders' Equity

In November 2001, the Company completed a public offering of 3,000,000 shares of common stock at a price of \$14.00 per share. Net proceeds to the Company totaled approximately \$38,289,000.

In December 2003, the Company issued 272,500 restricted stock awards to certain employees of the Company. Each award requires the employee to fulfill certain obligations including remaining employed by the Company for periods of either two or four years (the "Restriction Period"). In connection with the issuance of the awards the Company recorded the issuance of 272,500 shares of common stock at an issuance value of \$5.29 and a deferred compensation expense of \$1,442,000, which will be amortized over the Restriction Period.

4. Revenues

Revenues by product group consisted of approximately the following:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
III-V	\$32,915,000	\$32,679,000	\$28,324,000
Display	43,637,000	44,122,000	23,596,000
Total revenues	<u>\$76,552,000</u>	<u>\$76,801,000</u>	<u>\$51,920,000</u>

5. Concentrations of Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade accounts receivable. Trade receivables are primarily derived from sales to manufacturers of consumer electronic devices and wireless components. Ongoing credit evaluations of customers' financial condition are performed and collateral, such as letters of credit, are required when deemed necessary. The following table depicts the customer's trade receivable balance as a percentage of gross trade receivables for the year indicated.

<u>Customer</u>	<u>Percent of Gross Trade Receivable</u>	
	<u>2003</u>	<u>2002</u>
Skyworks Solutions, Inc.	25%	34%
Samsung Electronics	18	14
Matsushita Electric Corp. (Panasonic)	10	5
Victor Company of Japan (JVC)	10	19

Sales to significant customers, for the years ended December 31, 2003, 2002 and 2001, as a percentage of total revenues were as follows. The symbol "*" indicates that sales to that customer were less than 10% of the Company's total revenues.

<u>Customer</u>	<u>Percent of Total Revenue</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Skyworks Solutions, Inc.	20%	26%	24%
Samsung Electronics	33	26	22
Victor Company of Japan (JVC)	12	15	*
Matsushita Electric Corp. (Panasonic)	*	13	15
Mitsubishi Electric Company	*	*	11

Sales to foreign customers, as determined by the location of the customer, during the years ended December 31, 2003, 2002, and 2001 were approximately 55%, 61% and 57%, respectively, of our revenue. Revenues from

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KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

customers located in Japan for 2003, 2002, and 2001 were approximately 20%, 30%, and 22%, respectively, of our revenue. Revenues from customers located in Korea were approximately 33%, 29% and 27% of our revenue in 2003, 2002 and 2001, respectively.

Long-lived assets by geographic area are as follows:

	2003	2002
United States	\$27,087,213	\$30,440,712
South Korea	3,921,190	4,307,649
	\$31,008,403	\$34,748,361

6. Income Taxes

As of December 31, 2003, the Company has available for tax purposes federal net operating loss carryforwards of approximately \$50,000,000, expiring through 2019. Deferred taxes are provided to recognize the effect of temporary differences between tax and financial reporting. Deferred income tax assets and liabilities consist of the following:

	2003	2002
Deferred tax assets:		
Net operating loss carryforward	\$ 20,733,000	\$ 18,397,000
Research and development expenses	309,000	617,000
Amortization of intangible asset	6,121,000	5,862,000
Equipment	3,590,000	3,190,000
Investments	5,052,000	5,214,000
Other	4,088,000	3,736,000
	\$ 39,893,000	\$ 37,016,000
Deferred tax liabilities:		
Patent costs	\$ 888,000	\$ 888,000
Depreciation	3,665,000	3,315,000
	4,553,000	4,203,000
Net deferred tax assets	35,340,000	32,813,000
Valuation allowance	(35,340,000)	(32,813,000)
	\$ —	\$ —

The provision for income taxes consists of the following for the years ended December 31:

	2003	2002	2001
Current			
Federal	\$(1,775,000)	\$ 3,823,000	\$ (7,950,000)
State	(561,000)	781,000	(1,363,000)
Foreign	209,000	244,000	108,000
Deferred			
Federal	(332,000)	(13,979,000)	(1,046,000)
State	(68,000)	(2,841,000)	(160,000)
Generation (utilization) of loss carryforwards	2,527,000	11,972,000	10,411,000
	\$ —	\$ —	\$ —

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. Stock Options

The Company's 1992 Stock Option Plan (the 1992 Plan), which expired on December 31, 2001 permitted the granting of both nonqualified stock options and incentive stock options and covered 15,000,000 shares of common stock (including shares issued upon exercise of options granted pursuant the 1985 Plan). In 2001 the Company adopted a 2001 Equity Incentive Plan (the Equity Plan) and a 2001 Supplemental Equity Plan (the Supplemental Plan). The Equity Plan as amended, permits the granting of both nonqualified and incentive stock options and restricted stock awards. The Equity Plan covers 2,400,000 shares of common stock which may be issued to employees and members of the Board of Directors. The Supplemental Plan covers 1,300,000 shares of common stock which may be issued to employees and only permits the issuance of nonqualified stock options and restricted stock awards. The option price of incentive stock options shall not be less than 100% of the fair market value of the stock at the date of grant, or in the case of certain incentive stock options, at 110% of the fair market value at the time of the grant. Options must be exercised within a ten-year period or sooner if so specified within the option agreement. The term and vesting period for restricted stock awards and options granted under plans are determined by the Company's compensation committee. Restricted stock awards and options granted generally vest over two to four year periods.

In 1994, the Company adopted the Director Stock Option Plan, which provides for the automatic granting, pursuant to a formula, of nonqualified stock options to our non-employee directors. A maximum of 700,000 shares are issuable under this plan.

For certain options granted, the Company recognizes as compensation expense the excess of the fair market value of the common shares issuable upon exercise of such options over the aggregate exercise price of such options. This compensation expense is amortized ratably over the vesting period of each option. For the year ended December 31, 2001, compensation expense of \$55,015 was recorded. A summary of option activity is as follows:

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance, beginning of year	9,362,720	\$ 9.14	8,826,106	\$ 9.47	8,289,442	\$ 9.08
Options granted	639,750	5.47	1,351,125	4.88	2,190,037	7.41
Options cancelled	(182,202)	13.19	(468,972)	9.56	(277,398)	10.46
Options exercised	(381,921)	3.89	(345,539)	3.10	(1,375,975)	3.67
Balance, end of year	9,438,347	9.03	9,362,720	9.14	8,826,106	9.47
Exercisable, end of year	6,661,603		5,575,754		4,324,696	

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information about stock options outstanding and exercisable at December 31, 2003:

<u>Range of Exercise prices</u>	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.25—\$3.55	926,831	3.79	\$ 2.74	926,831	\$ 2.73
\$3.75—\$4.97	2,556,422	6.59	4.33	1,624,868	4.15
\$5.04—\$9.95	2,540,011	8.02	6.60	1,243,258	6.55
\$10.25—\$13.00	2,143,083	6.47	10.42	1,892,996	10.43
\$14.69—\$44.88	1,272,000	6.94	25.56	973,650	25.48
	9,438,347	6.72	9.03	6,661,603	9.31

8. Employee Benefit Plan

The Company has an employee benefit plan pursuant to Section 401(k) of the Internal Revenue Code. The plan allows employees to defer an amount of their annual compensation up to a current maximum of \$12,000. The Company will match 50% of all deferred compensation up to a maximum of 3% of each employee's annual compensation. The amount charged to operations in connection with this plan was approximately \$214,000 in 2003, \$180,000 in 2002, and \$209,000 in 2001.

9. Commitments

Leases

We lease facilities located in Taunton and Westborough, Massachusetts, Scotts Valley, California, and Columbia, Maryland under non-cancelable operating leases. The Taunton leases expire in 2007 and 2010. The Westborough lease expires in 2008. The Scotts Valley lease terminates in 2007. The Maryland lease expires in 2005. Substantially all real estate taxes, insurance and maintenance expenses under these leases are our obligations and are expensed as incurred. The following is a schedule of minimum rental commitments under non-cancelable operating leases as of December 31, 2003:

<u>Year ending December 31,</u>	<u>Amount</u>
2004	\$1,610,248
2005	1,446,642
2006	1,306,747
2007	1,138,528
2008	581,249
Thereafter	440,000
Total minimum lease payments	\$6,523,414

Amounts incurred under operating leases are recorded as rent expense and aggregated approximately \$1,418,000 in 2003, \$1,691,000 in 2002 and \$1,933,000 in 2001.

KOPIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other Agreements

The Company has entered into various license agreements which require payment of royalties based upon a set percentage of product sales, subject, in some cases, to certain minimum amounts. Total royalty expense approximated \$15,000 in 2003, \$36,000 in 2002, and \$30,000 in 2001.

The Company has entered into a non-cancelable agreement with a vendor to purchase at least \$6,285,000 worth of product during the year ending December 31, 2004.

In October 2003 the Company amended a supply agreement with a significant HBT customer that now expires in July 2006. Under the terms of this agreement the Company agreed to maintain capacity levels for manufacturing HBT wafers and the Company committed to a pricing schedule under certain circumstances. The agreement also requires the Company to give prior notice if the Company exits its HBT product line. In consideration for this agreement the customer agreed to source 100% of its HBT wafer needs from the Company subject to the customer's right to source HBT wafers from other sources if the Company is unable to meet their requirements under certain circumstances. The Company agreed that failure to meet its supply obligations under the agreement would allow 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.

10. Litigation

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

11. Selected Quarterly Financial Information (Unaudited)

The following table presents summarized financial results for the each of the fiscal quarters of the years ended December 31, 2003 and 2002 (in thousands, except per share data).

	2003			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	\$	\$	\$	\$
Revenues	18,049	19,868	17,514	21,121
Gross profit	2,990	4,630	2,450	4,860
Net loss	(2,237)	(1,001)	(3,026)	(614)
Loss per share—basic	\$ (.03)	\$ (.01)	\$ (.04)	\$ (.01)
Loss per share—diluted	\$ (.03)	\$ (.01)	\$ (.04)	\$ (.01)
	2002			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	\$	\$	\$	\$
Revenues	17,583	20,835	21,887	16,496
Gross profit	2,710	4,708	5,846	3,990
Net income (loss)	(15,767)	(1,622)	591	(15,113)
Income (loss) per share—basic	\$ (.23)	\$ (.02)	\$.01	\$ (.22)
Income (loss) per share—diluted	\$ (.23)	\$ (.02)	\$.01	\$ (.22)

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KOPIN CORPORATION
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
Years Ended December 31, 2003, 2002, 2001

<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Income</u>	<u>Deductions from Reserve</u>	<u>Balance at End of Year</u>
Reserve deducted from assets—allowance for doubtful accounts:				
2001	\$ 450,800	\$ 900,000	—	\$1,350,000
2002	1,350,000	—	(150,000)	1,200,000
2003	1,200,000	—	—	1,200,000

INDEX TO EXHIBITS

<u>Exhibits</u>	<u>Sequential page number</u>
3.1	Amended and Restated Certificate of Incorporation (2)
3.2	Amendment to Certificate of Incorporation (7)
3.3	Amendment to Certificate of Incorporation (7)
3.4	Second Amended and Restated By-laws (10)
4	Specimen Certificate of Common Stock (1)
10.1	Form of Employee Agreement with Respect to Inventions and Proprietary Information (1)
10.2	1985 Incentive Stock Option Plan, as amended (1)*
10.3	Amended and Restated 1992 Stock Option Plan (2)*
10.4	1992 Stock Option Plan Amendment (7)*
10.5	1992 Stock Option Plan Amendment (8)*
10.6	2001 Equity Incentive Plan (9)*
10.7	Kopin Corporation 2001 Equity Incentive Plan Amendment
10.8	2001 Supplemental Equity Incentive Plan (8)*
10.9	Form of Key Employee Stock Purchase Agreement (1)*
10.10	License Agreement by and between the Company and Massachusetts Institute of Technology dated April 22, 1985, as amended (1)
10.11	Facility Lease, by and between the Company and Massachusetts Technology Park Corporation, dated October 15, 1993 (3)
10.12	Master Sublease—Purchase Agreement, by and between the Company and Massachusetts Industrial Finance Agency, dated June 23, 1994 (4)
10.13	Contract by and between the Company and the United States Department of Commerce, dated April 25, 1995 (5)
10.14	Cooperative Research and Development Agreement, by and between the Company and Massachusetts Institute of Technology Lincoln Laboratory, dated June 21, 1995 (confidential portions on file with the Commission) (5)
10.15	Letter Agreement, by and between the Company and United Microelectronics Corporation, dated November 29, 1995 (confidential portions on file with the Commission) (5)
10.16	Joint Venture Agreement, by and among the Company, Kowon Technology Co., Ltd., and Korean Investors, dated as of March 3, 1998 (6)
10.17	Fifth Amended and Restated Employment Agreement between the Company and Dr. John C.C. Fan, dated as of February 20, 2004
21.1	Subsidiaries of Kopin Corporation
23.1	Consent of Deloitte & Touche LLP, Independent Auditors of the Company
31.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- * Management contract or compensatory plan required to be filed as an Exhibit to this Form 10-K pursuant to Item 15(c) of this Report.
- (1) Filed as an exhibit to Registration Statement on Form S-1, File No. 33-45853, and incorporated herein by reference.
 - (2) Filed as an exhibit to Registration Statement on Form S-1, File No. 33-57450, and incorporated herein by reference.
 - (3) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 1993 and incorporated herein by reference.
 - (4) Filed as an exhibit to Quarterly Report on Form 10-Q for the quarterly period ended July 2, 1994 and incorporated herein by reference.
 - (5) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference.
 - (6) Filed as an exhibit to Annual Report on Form 10-Q for the quarterly period ended June 27, 1998 and incorporated herein by reference.
 - (7) Filed as an exhibit to Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000 and incorporated herein by reference.
 - (8) Filed as an exhibit to Registration Statement on Form S-8 and incorporated herein by reference.
 - (9) Filed as an appendix to Proxy Statement filed on April 20, 2001 and incorporated herein by reference.
 - (10) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and incorporated herein by reference.

KOPIN CORPORATION**Kopin Corporation 2001 Equity Incentive Plan Amendment**

The Board of Directors of Kopin Corporation (the “Company”), pursuant to authority reserved in Section 13 of the 2001 Equity Incentive Plan of the Company (the “2001 Plan”), amended the 2001 Plan as follows, which such action was ratified by the stockholders of the Company on April 24, 2003:

Effective as of March 7, 2003, Sections 4 and 8.1 of the 2001 Plan are deleted in their entirety and replaced with the following:

4. Stock Subject to the Plan. At no time shall the number of shares of Common Stock issued pursuant to or subject to outstanding Awards granted under the Plan exceed 3,500,000 shares of Common Stock; *subject, however*, to the provisions of Section 8 of the Plan. For purposes of applying the foregoing limitation, if any Option expires, terminates, or is cancelled for any reason without having been exercised in full, or if any Award of Restricted Stock is forfeited by the recipient, the shares not purchased by the Optionee or forfeited by the recipient shall again be available for Awards to be granted under the Plan. Shares of Common Stock issued pursuant to the Plan may be either authorized but unissued shares or shares held by the Company in its treasury.

8.1. Adjustment for Corporate Actions. All of the share numbers set forth in the Plan reflect the capital structure of the Company as of March 7, 2003. Subject to Sections 8.2 and 8.3, if subsequent to that date the outstanding shares of Common Stock (or any other securities covered by the Plan by reason of the prior application of this Section) are increased, decreased, or exchanged for a different number or kind of shares or other securities, or if additional shares or new or different shares or other securities are distributed with respect to shares of Common Stock or other securities, through merger, consolidation, sale of all or substantially all the property of the Company, reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other distribution with respect to such shares of Common Stock, or other securities, an appropriate and proportionate adjustment will be made in (i) the maximum numbers and kinds of shares provided in Section 4, (ii) the numbers and kinds of shares or other securities subject to the then outstanding Awards, (iii) the exercise price for each share or other unit of any other securities subject to then outstanding Options (without change in the aggregate purchase price as to which such Options remain exercisable), and (iv) the repurchase price of each share of Restricted Stock then subject to a Risk of Forfeiture in the form of a Company repurchase right.

IN WITNESS WHEREOF, the Company has adopted this Amendment, effective as of the 7th day of March, 2003.

KOPIN CORPORATION

By: /s/ John C.C. Fan
John C.C. Fan
President and Chief Executive Officer

FIFTH AMENDED AND RESTATED**EMPLOYMENT AGREEMENT**

THIS AGREEMENT, entered into as of the 20th day of February, 2004, amends and restates the Amended and Restated Agreement, dated as of the 20th day of February, 2002, by and between KOPIN CORPORATION, a Delaware corporation with its principal place of business at 200 John Hancock Road, Taunton, MA 02780 (the "Employer"), and John C. C. Fan, an individual residing at [REDACTED] (the "Employee"), as first amended and restated as of May 1, 1995.

§1. Freedom to Contract. The Employee represents that he is free to enter into this Agreement, that he has not made and will not make any agreements in conflict with this Agreement, and will not disclose to the Employer, or use for the Employer's benefit, any trade secrets or confidential information now or hereafter in the Employee's possession which is the property of any other party.

§2. Employment. The Employer hereby employs the Employee, and the Employee hereby accepts his employment by the Employer, upon the terms and conditions set forth herein.

§3. Effective Date and Term. This Agreement shall take effect as of February 20, 2004 (the "Effective Date"), and shall continue thereafter in full force and effect through February 20, 2006, unless terminated prior to such time in accordance with the provisions of this Agreement.

§4. Title and Duties; Extent of Services. The Employee shall promote the business and affairs of the Employer as President and Chief Executive Officer of the Employer, with responsibility for performing such duties consistent with such position as the Board of Directors may from time to time designate. As long as he is employed hereunder, the Employee shall also continue to serve, if elected by the Shareholders, as a member of the Board of Directors of the Employer.

§5. Termination Rights of the Parties. The employment of the Employee by the Employer under this Agreement may be terminated at any time by either the Employee or Employer upon 360 days' prior written notice of such termination to the other.

§6. Compensation. Employee shall be paid a salary at an initial annual rate of Four Hundred Fifty Thousand Dollars (\$450,000) through December 31, 2004. The Board of Directors, in its sole discretion, shall have the absolute

right to determine the Employee's salary and benefits for each subsequent fiscal year during the term hereof, provided that in no event shall such salary and such benefits be less than such initial annual rate and the benefits awarded to the Employee during the initial year hereof. The Employer agrees to diligently review and consider alternative means of providing the Employee with additional tax advantaged compensation.

§7. Inventions and Proprietary Information.

§7.1. Inventions. Employee shall inform the Employer using the established procedures promptly and fully of all inventions, improvements, discoveries, know-how, designs, processes, formulae and techniques, and any related suggestions and ideas (hereinafter "Inventions"), whether patentable or not, which are solely or jointly conceived or made by Employee, during the period of Employee's employment by the Employer, whether during or out of Employee's usual hours of work. The Employer shall own all right, title and interest to those inventions (hereinafter "Employer Inventions") which are: (a) within the scope of the Employer's business, which includes areas in which research is being conducted and areas of technical or market investigation; and/or (b) related to work done for the Employer by Employee. Employee hereby assigns and agrees to assign to the Employer Employee's entire right, title and interest in all Employer Inventions and any patents, design patents, and any other forms of intellectual property resulting therefrom. Employee shall protect the Employer's right to patent Employee's Employer Inventions by keeping written records, which are witnessed and dated, concerning dates of conception and reduction to practice, and Employee shall not publish information concerning Employer Inventions without prior approval from the Employer. Employee shall also, during and after Employee's employment, execute such written instruments and render such other assistance as the Employer shall reasonably request to obtain and maintain patents, design patents, or other forms of protection on any Employer Inventions and to vest and confirm in the Employer its entire right, title and interest therein. In this regard, Employee shall be reimbursed by the Employer for actual expenses incurred and, if no longer an employee of the Employer, shall be reasonably compensated for assistance rendered.

§7.2. Proprietary Information. (a) Employee understands that as a consequence of Employee's employment by the Employer, proprietary data and confidential information (both hereinafter referred to as "Information") relating to the business of the Employer may be disclosed to Employee or developed by Employee which is not generally known in the Employer's trade and which is of

considerable value to the Employer. Such Information includes, without limitation, information about trade secrets, the Employer Inventions (as previously defined), patents, licenses, research projects, costs, profits, markets, sales, customer lists, plans for future development, and any other information of a similar nature to the extent not generally known in the trade. Employee acknowledges and agrees that Employee's relationship to the Employer with respect to such Information shall be fiduciary in nature. Employee shall not make any use of any such Information except in the performance of Employee's work for the Employer; Employee shall maintain such Information in confidence; and Employee shall not disclose to any person not employed by the Employer any such Information at any time either during or after Employee's employment or use any such Information in connection with other employment, except as authorized, in writing, by a duly empowered officer of the Employer.

(b) Employee shall deliver promptly to the Employer on termination of Employee's employment, or at any time the Employer so requests, all memoranda, notes, records, reports, manuals, drawings, blueprints, plans, customer lists, pricing and/or cost data, and all other property or materials belonging to the Employer, including all copies thereof, which Employee then possesses or has under Employee's control.

(c) Employee covenants that there are no Inventions and/or patents within the scope of the Employer's business in which Employee held an interest prior to the date of this Agreement and which are not subject to this Agreement.

§7.3. Remedies. Employee recognizes that irreparable injury may result to the Employer, its business and property, in the event of a breach of any of the agreements, assurances and understandings contained herein. Employee further recognizes that in the event of such a breach, or the substantial likelihood that such a breach will occur, the Employer intends to take legal action, and to seek injunctive relief if available, in accordance with the language and spirit of this Agreement in order to protect fully its interests and property.

§8. Covenant Not to Compete.

(a) The Employee recognizes that the Employer is engaged in the development and sale of III-IV compounds used in semiconductors and related products in Massachusetts and throughout the United States and the world and in the development of liquid crystal electronic imaging devices and display products based thereon (collectively, the "Principal Business"). In the

event of the termination of the Employee's employment hereunder, voluntarily or for cause (as defined in Section 8(d) below) and so long as the Employer is not in breach of its obligations to the Employee hereunder, the Employee agrees that, for a period of twelve (12) months from the date of such termination, he will neither

- (i) engage in the Principal Business directly for himself, or in conjunction with or on behalf of any commercial entity, or
- (ii) work as an employee in the Principal Business for any commercial entity,

where either (A) the Employee's duties in the course of any such activities would be substantially similar to those he has performed for the Employer hereunder or (B) the Employee's duties in the course of such activities would involve disclosure or use of any confidential or proprietary information relating to the business of the Employer which he may in any way acquire by reason of his employment by the Employer. The Employee's obligation under this Section 8 shall extend to all geographical areas of the United States and the world in which the Employer, as set forth above, carries on business, either directly or indirectly, including, but not limited to, places where the Employer has a place of business, has employees or representatives, or has advertised or sold any products during the time period specified in this section.

(b) The Employee further agrees that for a period of twelve (12) months from the date of such termination, he will not on behalf of himself or any commercial competitor of the Employer, compete for, or engage in the solicitation of, with respect to the Company's products or services, any commercial customer of the Employer, that he has, during the one year immediately preceding such termination, solicited or serviced on behalf of the Employer or that has been so solicited or serviced, during such period, by any person under the Employee's supervision.

(c) In the event of any violation of the foregoing provisions of this Section 8, the Employer shall be entitled, in addition to any other rights or remedies it may have, to injunctive relief, it being agreed that the damages which the Employer would sustain upon any such violation are difficult or impossible to ascertain in advance and that the Employee's violations may cause irreparable harm to the Employer.

(d) The term “cause” shall mean termination due to an act or acts by the Employee in willful contravention of the written directions of the Board of Directors of the Employer.

§9. Provisions of General Application.

§9.1. Governing Law. This Agreement and the rights and obligations of the parties hereunder shall be construed, interpreted and determined in accordance with the laws of the Commonwealth of Massachusetts.

§9.2. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which, taken together, shall constitute one and the same instrument. In making proof of this Agreement it shall not be necessary to produce or account for more than one such counterpart.

§9.3. Other Agreements. This Agreement represents the entire understanding and agreement between the parties as to the subject matter hereof. No prior, concurrent or subsequent agreement, whether written or oral, shall be construed to change, amend, alter, repeal or invalidate this Agreement, unless this Agreement is specifically identified in and made subject to such other written agreement.

§9.4. Amendment. This Agreement may be amended only by a written instrument executed in one or more counterparts by the parties hereto.

§9.5. Waiver. No consent to or waiver of any breach or default in the performance of any obligation hereunder shall be deemed or construed to be a consent to or waiver of any other breach or default in the performance of any of the same or any other obligation hereunder. Failure on the part of either party to complain of any act or failure to act of the other party or to declare the other party in default, irrespective of the duration of such failure, shall not constitute a waiver or rights hereunder and no waiver hereunder shall be effective unless it is in writing, executed by the party waiving the breach or default hereunder.

§9.6. Headings. The headings of sections and subsections of this Agreement have been inserted for convenience of reference only and shall not be deemed to be a part of this Agreement or to affect the meaning of any of its provisions.

§9.7. Severability. If any provision of this Agreement shall, in whole or in part, prove to be invalid for any reason, such invalidity shall affect only the portion of such provision which shall be invalid, and in all other respects this Agreement shall stand as if such invalid provision, or the invalid portion thereof, had not been a part hereof.

§9.8. Notices and Other Communications. All notices and other communications required hereunder shall be effective if in writing and if delivered or sent by certified or registered mail, return receipt requested (a) if to the Employee, at his residence address first set forth above, and (b) if to the Employer, at 200 Hancock Road, Taunton MA, Attention: Chief Financial Officer, with a copy to John H. Chu, Esq., Chu, Ring & Hazel LLP, 49 Melcher Street, Boston, Massachusetts 02210, or to such other persons or addresses as the parties hereto may specify by a written notice to the other from time to time.

IN WITNESS WHEREOF, this Agreement has been executed by the Employer, by its duly authorized officer, and by the Employee, as of the date first above written.

KOPIN CORPORATION

By: /s/ Richard A. Sneider

/s/ John C. C. Fan

Richard A. Sneider
Chief Financial Officer
and Treasurer

John C. C. Fan

KOPIN CORPORATION**SUBSIDIARIES OF KOPIN CORPORATION**

The Registrant has the following wholly owned (“W”) and majority owned subsidiaries (“M”).

<u>Subsidiary</u>	<u>Type</u>	<u>State of Incorporation</u>	<u>Fiscal Year End</u>
VS Corporation	W	Delaware	December 31
Kowon Technology Co., Ltd.	M	Korea	December 31
Kopin Display Corp.	W	Delaware	December 31
Kopin Optical, Inc.	W	Delaware	December 31
Kopin Trust Securities Corp.	W	Delaware	December 31
Kopin Securities Corporation	W	Delaware	December 31
Kopin Trust	W	Massachusetts	December 31
Kopin Trust II	W	Massachusetts	December 31
Koptron U.S.A.	W	Delaware	December 31

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements Nos. 33-71744, 33-88812, 33-87308, 333-46613, 333-92395, 333-49890, 333-73208 and 333-98285 of Kopin Corporation on Form S-8 and in Registration Statements Nos. 333-72956 and 333-55928 of Kopin Corporation on Form S-3 of our report dated March 5, 2004 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to a change in accounting for goodwill and intangibles in 2002), appearing in this Annual Report on Form 10-K of Kopin Corporation for the year ended December 31, 2003.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts

March 10, 2004

**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-K 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: March 10, 2004

/s/ John C.C. Fan
John C. C. Fan
President and Chief Executive Officer

**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-K 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: March 10, 2004

/s/ Richard A. Sneider
Richard A. Sneider
Chief Financial Officer

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

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 Annual Report of Kopin Corporation (the "Company") on Form 10-K for the year ended December 31, 2003, 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 to my knowledge: (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: March 10, 2004

By: /s/ John C. C. Fan
John C. C. Fan
President and Chief Executive Officer

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

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 Annual Report of Kopin Corporation (the "Company") on Form 10-K for the year ended December 31, 2003, 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 to my knowledge: (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: March 10, 2004

By: /s/ Richard A. Sneider
Richard A. Sneider
Chief Financial Officer