

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 28, 2019**

OR

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

For the transition period from _____ to _____
Commission file number **0-19882**

KOPIN CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

State or other jurisdiction of
incorporation or organization

125 North Drive, Westborough MA
(Address of principal executive offices)

Registrant's telephone number, including area code: **(508) 870-5959**

04-2833935

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

01581-3335

(Zip Code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01	KOPN	Nasdaq Global Market

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

None.

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). X Yes No

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

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

As of June 28, 2019 (the last business day of the registrant's most recent second fiscal quarter), the aggregate market value of outstanding shares of voting stock held by non-affiliates of the registrant was \$73,449,831.

As of March 9, 2020, 84,914,040 shares of the registrant's Common Stock, par value \$.01 per share, were issued and outstanding.

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Part I
Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are subject to the safe harbor created by such sections. Words such as "expects," "anticipates," "intends," "plans," "believes," "could," "would," "seeks," "estimates," and variations of such words and similar expressions, and the negatives thereof, are intended to identify such forward-looking statements. We caution readers not to place undue reliance on any such "forward-looking statements," which speak only as of the date made, and advise readers that these forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, estimates, and assumptions by us that are difficult to predict. Various factors, some of which are beyond our control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. All such forward-looking statements, whether written or oral, and whether made by us or on our behalf, are expressly qualified by these cautionary statements and any other cautionary statements which may accompany the forward-looking statements. In addition, we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report, except as may otherwise be required by the federal securities laws.

We have identified the following important factors that could cause actual results to differ materially from those discussed in our forward-looking statements. Such factors may be in addition to the risks described in Part I, Item 1A. "Risk Factors;" Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations;" and other parts of this Form 10-K. These factors include: our ability to continue as a going concern; the material weakness management has identified in our internal control over financial reporting, our conclusion that our disclosure controls and procedures were not effective as of the fiscal years ended December 28, 2019 or December 29, 2018, and our ability to remediate that material weakness; our ability to obtain raw materials and other goods as well as services from our suppliers as needed; the potential for customers to choose our competitors as their supplier; our expectation that we will have negative cash flow from operating activities in 2020; our ability to prosecute and defend our proprietary technology aggressively or successfully; our ability to retain personnel with experience and expertise relevant to our business; our ability to invest in research and development to achieve profitability even during periods when we are not profitable; our ability to continue to introduce new products in our target markets; our ability to generate revenue growth and positive cash flow, and reach profitability; the strengthening of the U.S. dollar and its effects on the price of our products in foreign markets; the impact of new regulations and customer demands relating to conflict minerals; our ability to obtain a competitive advantage in the wearable technologies market through our extensive portfolio of patents, trade secrets and non-patented know-how; our ability to grow within our targeted markets; the importance of small form factor displays in the development of military, consumer, and industrial products such as thermal weapon sights, safety equipment, virtual and augmented reality gaming, training and simulation products and metrology tools; the suitability of our properties for our needs for the foreseeable future; our expectation not to pay cash dividends for the foreseeable future and to retain earnings for the development of our businesses; our expectation that we will expend between \$1.5 million and \$2.0 million on capital expenditures over the next twelve months; if we do not soon achieve and maintain positive cash flow and profitability, our financial condition will ultimately be materially adversely affected, and we will be required to reduce expenses, including our investments in research and development or raise additional capital; our ability to support our operations and capital needs for at least the next twelve months through our available cash resources; our expectation that we will incur taxes based on our foreign operations in 2020; and our expectation that we will have a state tax provision in 2020.

Item 1. Business

Overview

We were incorporated in Delaware in 1984 and are a leading inventor, developer, manufacturer and seller of components, subassemblies, head-worn and hand-held systems for soldier, avionic, armored vehicle and training & simulation military applications; 3D optical inspection systems; and industrial, public safety and consumer augmented reality ("AR") and virtual reality ("VR") wearable headsets systems.

Our primary sources of revenues are from the sale of display components and subassemblies for military and industrial applications. The components that we offer for sale consist of our proprietary miniature transmissive active-matrix liquid crystal displays ("AMLCD"), reflective liquid crystal on silicon ("LCOS") displays, organic light emitting diode ("OLED") displays, application specific integrated circuits ("ASICs"), backlights, and optical lenses. We refer to our AMLCD as "CyberDisplay®," our LCOS displays/SLMs as "Time Domain Imaging™ technology", and our OLED as "Lightning®™"

displays". Our transmissive AMLCDs are designed in Westborough, Massachusetts, have initial manufacturing steps performed in Asia and then are completed in our facilities in Westborough, Massachusetts. Our reflective LCOS microdisplays are designed in Dalgety Bay, Scotland, have initial manufacturing steps performed in Asia and are completed in our facilities in Dalgety Bay, Scotland. Our OLED displays are designed in our San Jose, California facility and manufactured in Asia. Our displays provide either color or monochrome images and are offered in a variety of sizes and resolutions. The display driver ASICs we offer are designed in our San Jose, California facility and are the electronic interfaces between our displays and the products into which the displays are incorporated. The optical lenses and backlights we offer are based on either our proprietary designs or designs we license from third parties. The ASICs, optical lenses, and backlights are manufactured by third parties based on our purchase orders.

Our components are sold separately or in subassemblies. For example, we offer a display as a single product, as a display module which includes a display, an optical lens and backlight contained in either plastic or metal housings, as a binocular display module which has two displays, lenses and backlights, and as a higher-level assembly which has additional components for military applications. Current products that include our AMLCD components going into devices that are manufactured by our customers include thermal weapon sights and fighter pilot helmets, industrial and public safety devices such as firefighter thermal camera enabled masks and augmented reality and virtual reality consumer products for recreational use and sport drones. Our LCOS products are also configured as Spatial Light Modulators ("SLMs") and are used in industrial equipment for 3D optical inspection. Our OLED display was first introduced in 2017 and revenues from our OLED displays have, to date, primarily been from customer development programs. We believe the OLED displays have certain attributes that may make them superior for certain AR and VR applications, specifically high contrast ratio and wide viewing angle.

Our NVIS, Inc. ("NVIS") subsidiary is a designer and manufacturer of military and industrial head-mounted and hand-held virtual reality products and training simulation military equipment located in Reston, Virginia. Depending on the size of the order, NVIS's products are either manufactured in its Reston, Virginia facility or by a contract manufacturer in the U.S.A. NVIS products allow customers to visualize and interact with simulated 3D environments and equipment for training purposes. Our customers develop high-fidelity training and simulation applications that require high-performance visuals, intuitive controls, and unsurpassed customer support. Some of NVIS's products include our LCOS displays.

We have designed systems that are focused on the emerging enterprise and consumer markets for head-worn, hands-free voice and gesture controlled wireless computing and communication devices. Our systems connect via a wire, Bluetooth or WiFi to a smartphone or similar device in order to access or transmit information from or to the Internet or devices that are in close proximity. We recently reduced our investments in designing new systems, other than systems developed by our NVIS subsidiary, in order to focus on our display component business, in particular our OLED displays. However, we continue to license our previously designed systems under agreements that may include a royalty payable to us and a purchase and supply agreement that requires our customer to buy our components for integration into their products. The licenses may convey the right of exclusivity for a particular market or geographic area. These products include our components and a variety of commercially available software packages and our proprietary software. Our business model is to license our concept systems or technologies to branded OEM customers who wish to develop and market head-worn products for both mobile enterprise and consumer applications.

Sales to significant non-affiliated customers for fiscal years 2019, 2018 and 2017, as a percentage of total revenues, is as follows:

Customer	Sales as a Percent of Total Revenue		
	Fiscal Year		
	2019	2018	2017
Military Customers in Total	30%	36%	48%
General Dynamics	*	11%	*
DRS Network & Imaging Systems, LLC	17%	*	10%
Collins Aerospace	*	20%	10%
U.S. Army	*	*	12%
RealWear, Inc.	20%	*	*
Funded Research and Development Contracts	17%	20%	11%

Note: The symbol "*" indicates that sales to that customer were less than 10% of the Company's total revenues. The caption "Military Customers in Total" excludes research and development contracts.

Our fiscal year ends on the last Saturday in December. The fiscal years ended December 28, 2019, December 29, 2018, and December 30, 2017 are referred to herein as fiscal years 2019, 2018 and 2017, respectively. Our principal executive offices are located at 125 North Drive, Westborough, Massachusetts. Our telephone number is (508) 870-5959.

Solos Spinoff

On September 30, 2019, we entered into an Asset Purchase Agreement (the "Solos Purchase Agreement") with Solos Technology Limited ("Solos Technology"). Pursuant to the Solos Purchase Agreement, we sold and licensed to Solos Technology certain assets of our Solos™ ("Solos") product line and Whisper™ Audio ("Whisper") technology. As consideration for the transaction, we received 1,172,000 common shares representing a 20.0% equity stake in Solos Technology's parent company, Solos Incorporation ("Solos Inc."). Our 20.0% equity stake will be maintained until Solos Inc. has raised a total of \$7.5 million in equity financing, after which we will have to participate in future equity offerings or have our ownership percentage decline. We performed a fair market value assessment of our 20.0% ownership interest and recorded a gain on investment of \$0.6 million as the basis in the assets transferred was zero. Our CEO and Chairman, Dr. John C.C. Fan, acquired an individual ownership interest of 15.5% (12.3% fully diluted) of Solos Inc. Two of Dr. Fan's family members have also invested in Solos Inc., and collectively hold a 37.1% (29.5% fully diluted) ownership interest in Solos Inc.

We believe the disposition of the Solos product line will allow us to focus on our display products, while retaining the right to continue utilizing Whisper technology with our military and industrial customers, and reducing our development and personnel costs.

Industry Overview

The introduction and wide acceptance of the smartphone has generated advances in many technologies including smaller and cheaper electronic components, voice search engines and wireless 4G and soon, 5G networks. Smartphone adoption has also been the catalyst for the development of software for a wide-range of applications. Leveraging off of these advances and the growth of cloud computing, a new category of "Wearable" products is emerging. This emerging category of wearable systems can be used for hundreds of different applications by enterprise workers, public safety officials and consumers, bringing ever-increasing productivity, fun and convenience. These technologies can also be used by the military to improve communications and provide military personnel with enhanced situational awareness. Through the use of Wearable products users can have access to their applications and digital files, GPS, the Internet, phone, e-mail, etc., enabling an "always connected" work-style and lifestyle.

Wearable products include body-worn devices such as sensors, scanners and terminals which are sold to the military to improve soldier effectiveness, industrial markets to improve worker productivity, and to the consumer market to monitor health and fitness metrics such as heart rate, speed and temperature. We believe wireless smartphone makers are looking to create products that work as a complement to the smartphone or will eventually replace the smartphone with more convenient and powerful devices. We also believe that military, industrial and consumer companies are looking at augmented reality and virtual reality as new applications and computing platforms. In addition, wireless network companies are encouraging the development of more products and applications that utilize their network capacity and other companies are developing products which provide continuous access to digital content. In order for these markets to develop and grow, advances and investment in display technology, optics, application software, and wireless communications systems with greater bandwidth such as 5G networks will be necessary. These advances must increase performance but also lower cost.

Our Solution

Kopin Technology

Kopin technology includes components, subassemblies, and head-worn and hand-held systems. The components we offer for sale primarily consist of our small form factor AMLCD, LCOS and OLED displays and optical lenses. These are used in our customers' products, such as headsets for field service personnel, medical professionals or drone racing viewers. We also offer backlights and ASIC's which work with our AMLCD and LCOS displays. The subassemblies we offer combine one or two of our displays, backlight, ASIC, complex optics, and electronics in an assembly that is then included in a larger system, for example a thermal weapon sight or a targeting system in an armored vehicle.

Display Products

Small form factor displays used in near-eye applications are widely used in the military in many applications such as thermal weapon sights, avionic helmets and training and simulation systems. Small form factor near-eye displays currently have more limited use in consumer and industrial products such as digital still cameras and some augmented reality applications. We believe small form factor near-eye display are well suited for augmented and virtual reality consumer and industrial markets which we believe will grow in the coming years. We believe small form factor displays will be a critical component in the development of these markets. We believe our small form factor displays have certain advantages with respect to small size, resolution, brightness and low power consumption that are advantageous for product design and usage.

There are several microdisplay technologies commercially available including transmissive, reflective and emissive. Our principal display products are miniature high density color or monochrome AMLCDs that range from approximately 428 x 240 resolution to 2048 x 2048 resolution and are sold in either a transmissive or reflective format. We are developing emissive OLED displays with a resolution of 1280 x 720 ("720p"), 2048 x 2048 ("2K") and 2560 x 2560 ("2.6K"). We sell our displays individually or in combination with our other components assembled in a unit. For example, we offer a display as a product, a module product unit that includes a single display, backlight and optics in a plastic housing, a binocular display module product that includes two displays, backlights and optics in a plastic housing, and a Higher-Level Assembly ("HLA") that contains a display, light emitting diode based illumination, optics, and electronics in a sealed housing, primarily for military applications.

Our transmissive display products, which we refer to as CyberDisplay® products, utilize high quality, single-crystal-on-silicon, which is the same high-quality silicon used in conventional integrated circuits. This single-crystal-silicon is not grown on glass; rather, it is first formed on a silicon wafer and patterned into an integrated circuit (including the active matrix, driver circuitry and other logic circuits) at an integrated circuit foundry. These processes enable the manufacture of miniature active matrix circuits, that are comparable to higher resolution displays relative to passive and other active matrix displays that are fabricated on glass. Our foundry partners fabricate integrated circuits for our CyberDisplay displays in their foundries in Taiwan. 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 Wafer Engineering technology. The transferred integrated circuits are then processed, packaged with liquid crystal and assembled into display panels at our Display Manufacturing Center in Westborough, Massachusetts.

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

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

The color CyberDisplay products generate colors by using color filters with a white backlight. Color filter technology is a process in which display pixels are patterned with materials, which selectively absorb or transmit the red, green or blue colors of light.

Our reflective LCOS display products are miniature high density, dual mode color sequential/monochrome reflective microdisplays with resolutions which range from approximately 1280 x 720 pixels ("720P") resolution to 2K x 2K resolution. These displays are manufactured at our facility in Scotland. Our reflective displays are based on a proprietary, high-speed, ferroelectric liquid crystal on silicon ("FLCOS") platform. Our digital software and logic-based drive electronics combined with the very fast switching binary liquid crystal enables our microdisplay to process images purely digitally and create red, green and blue gray scale in the time domain. This architecture has major advantages in visual performance over other liquid crystal, organic light-emitting diode and microelectromechanical systems-based technologies: precisely controlled full color or monochrome gray scale is achieved on a matrix of undivided high fill factor pixels, motion artifacts are reduced to an insignificant level and there are no sub-pixels, no moving mirrors and no analog conversions to detract from the quality of the image.

The FLCOS device is comprised of two substrates. The first is a pixelated silicon-based CMOS substrate which is manufactured by our foundry partner using conventional silicon integrated circuit lithography processes. The silicon substrate

forms the display's backplane, serving as both the active matrix to drive individual pixels and as a reflective mirror. The second substrate is a front glass plate. Between the backplane and the front glass substrate is a ferroelectric liquid crystal material which, when switched, enables the incoming illumination to be modulated.

An OLED has the ability to emit light when electrical current flows through its electroluminescent layers as opposed to our AMLCD which requires a separate light source. Our OLED microdisplays have a top-emitting structure built on opaque silicon integrated circuits rather than on glass. Light from an OLED appears fairly evenly distributed in the forward directions and so a slight movement of the eye does not perceive the change in the image brightness or color, and therefore an OLED typically has a wider viewing angle than an AMLCD. OLED displays also have a much higher contrast ratio than AMLCDs, which is desirable for some user applications.

Kopin is aiming at disrupting the OLED microdisplay industry with a new fabless, scalable business model, the first, we believe, in the OLED microdisplay industry. We believe the partitioning of the OLED manufacturing into multiple parties, each focusing on their core competencies, can make a huge difference in the OLED microdisplay performance and supply chain, while reducing the capital cost and overhead costs of entering this business. Making OLED microdisplays consists of three major steps: designing backplane circuits, processing silicon wafers to generate backplane wafers, and deposition of OLED layers on silicon backplane wafers and packaging the displays. We believe backplane design is the most intellectual property-intensive (IP) area. Kopin has more than 20 patents granted or pending on the design of OLED backplanes to get low power consumption, high frame rates and more uniform display images. Kopin has established close relationships with multiple silicon foundries to produce the OLED backplane wafers. We believe Kopin's Lightning® backplane technology and the emergence of high-volume OLED manufacturing facilities can reduce the cost to manufacture OLED displays thereby expanding the applications for OLED microdisplays.

Our proprietary technology is in the design of the integrated circuits or "back plane". We have engaged foundry services for the fabrication of the Lightning OLED back plane wafers. Our model is to sell these wafers to deposition foundries that deposit the organic material on the backplane and manufacture the displays. The deposition foundries will either sell the displays to their customer or to us for resale to our customers. We believe this outsourcing model allows us to leverage existing infrastructure to obtain lower cost manufacturing and avail ourselves of manufacturing technology improvements as they occur.

Currently Kopin has two OLED microdisplays on the market: a 2k display with 2048 x 2048 resolution in a 0.99" diagonal size, which is aimed at VR/MR applications; and a 720p display with 1280 x 720 resolution in a 0.49" diagonal size, which is aimed at AR applications. Kopin has also demonstrated a 2.6k display with 2560 x 2560 resolution in a 1.3" diagonal size at the CES 2020. Our OLED microdisplay has a combo CPHY/DPHY MIPI interface and DSC (display stream compression) to allow 120 Hz operation at the full resolution. This display is designed for high-end VR and content streaming applications.

Two of the biggest challenges for the OLED microdisplay for AR and VR applications is low brightness and short lifetime. Kopin is attacking both of these issues with a double OLED stack approach to solve this issue. All the OLED microdisplays commercially available in volume so far have been made with a single-stack OLED structure, namely consisting of one junction organic diode structure. A double-stack OLED consists of two OLED structures connected in series so that carriers (electrons-holes) pass through the double-stack OLED and generate photons twice, instead of once in a single-stack OLED structure. Our patent-pending backplane wafer technology is critical for us to create the double-stack structure necessary for high performance. The double-stack OLED microdisplays have exhibited far superior performance already and we believe they will improve further as the technology matures.

By offering transmissive, reflective and emissive microdisplay technologies, we can uniquely support whichever technology is best suited for a given application. Transmissive and reflective AMLCDs are typically used in bright light conditions as their brightness can be modulated over a wide range by controlling the backlight operation. OLED displays currently have less brightness range but offer superior contrast and response time characteristics and therefore are better suited in an immersive products environment that blocks out ambient light.

Optical Lenses and Backlights

We offer a variety of optical lenses some of which we have developed internally and others for which we license the rights to sell. We also offer a variety of backlights, some of which we have developed internally and some of which are "off-the-shelf" components. The lenses come in a variety of sizes with the smallest being our Pupil, followed by our Pearl, Prism, and Pancake lenses. The different sizes of lenses give us and our customers design flexibility when creating headset systems. There is a trade-off between the lens size and the size of the perceived image to the viewer. For example, a Pearl lens will provide the viewer with an image approximately equivalent to what the viewer would see looking directly at a smartphone, whereas a Prism lens will provide the viewer with an image approximately equivalent to what the viewer would see looking at a tablet computer. A Pearl lens, however, is smaller than a Prism and would enable a more fashionable design. Therefore, a

customer designing a consumer-oriented product may choose a Pearl lens but a customer designing an enterprise-oriented product might choose a Prism Lens. We use third parties to manufacture these lenses.

Headset Systems

Our headset systems include:

- Industrial headset reference design, called Golden-i, which is a complete head-worn computer that connects to the internet wirelessly and includes an optical pod with one of our display products, a microprocessor, battery, camera, memory and various commercially available software packages that we license;
- Industrial headset reference design, called Golden-i™ Infinity, which is a device that attaches to a pair of safety glasses, includes an optical pod with one of our display products and a camera and is operated primarily through the use of voice; and
- Training and simulation head-mounted display system with a 1280 x 1024 full color display with either a 50° diagonal field-of-view in see-through or immersive modes or a stereoscopic 60° diagonal field-of-view, built-in microphone and stereo headphones for professional augmented and virtual reality applications.

Except for Golden-i Infinity, our headsets receive, or transmit data, from or to the Internet by interfacing with a smartphone or similar device via WiFi or Bluetooth. Golden-i Infinity connects to a smartphone or similar device via wire to leverage the processing capabilities of the smartphone and make the device as small and light as possible. The display module or optical pod allows users to view the information such as maintenance diagrams and instruction sets, Internet data, emails, text messages, maps or other data at a "normal" size because of our specialized optics. Our industrial headsets provide the capability of viewing technical diagrams, by enabling the user to zoom in to see finer details or zoom out to see a larger perspective. Some of our headsets utilize operating system software we developed or outsource.

Strategy

Our commercial product strategy is to invent, develop, manufacture and sell leading-edge critical components and subassemblies that enable our customers to create differentiated wearable products in their respective markets, to license wearable headset computing system designs, such as Golden-i, to customers who wish to offer their own branded products that enable a better "always connected" experience and to develop, manufacture and sell headsets for the training and simulation market. Our military strategy is to work primarily with the U.S. military to determine its program needs several years in the future and develop products which meet those needs. The critical elements of our strategy include:

- *Broad Portfolio of Intellectual Property.* We believe that our extensive portfolio of patents, trade secrets and non-patented know-how provides us with a competitive advantage in our markets and we have been accumulating, either by internal efforts or through acquisition, a significant patent and know-how portfolio. We own, exclusively license or have the exclusive right to sublicense approximately 200 patents and patent applications issued and/or pending worldwide. An important piece of our strategy is to continue to accumulate valuable patented and non-patented technical know-how relating to our microdisplays as well as other critical technologies for advanced wearable services.
- *Maintain Our Technological Leadership in Military and Industrial Markets.* We are a recognized leader in the design, development and manufacture of high resolution microdisplay components and subassemblies for military and industrial applications. We believe our ability to continue to develop components and subassemblies for military applications enhances our opportunity to grow within our other targeted markets, industrial and augmented and virtual reality consumer markets. We perform research and development contracts for U.S. government agencies, such as the U.S. Night Vision Laboratory and the U.S. Department of Defense. Under these contracts, the U.S. Government funds a portion of our efforts to develop next-generation microdisplay related technologies for aviation systems such as fighter pilot helmets, soldier centric systems such as thermal weapon sights, training and simulation systems and military armored vehicles. This enables us to supplement our internal research and development budget with additional funding.
- *Understand Our Customer Needs.* We believe our system know-how, be it a consumer, industrial or military system is a compelling reason customers choose us as their supplier. Unlike many of our competitors we offer a range of display technologies, optics, backlights, ASICs and noise cancellation as either an individual component or in a system. Our human-factors and system understanding enables us to offer our customers valuable engineering services to solve their issues and reduce time to market for their products.

- *Internally Manufactured Products and Use of Third Party Manufacturing.* We design and manufacture our transmissive and reflective display products in facilities that we lease and manage. However, the initial manufacturing steps are performed at capital-intensive Asian foundries. Our OLED displays are designed by us but we use foundry service to perform a substantial portion of the manufacturing. The use of these third party foundries reduces our investments in plant and equipment and working capital for new products and enables us to update designs as technology and manufacturing trends change.

Markets and Customers

Our business model is to primarily generate product revenues by selling display components and subassemblies to customers who offer military, industrial or consumer products and to a lesser extent license our system designs and know-how. We also enter into development contracts from customers to either design custom products for them or help them integrate our technology into their products (Funded Research and Development).

We currently sell our display products to our customers in various configuration including but not limited to a single display component, a module that includes a display, optic, backlight and focus mechanism and electronics, a binocular display module that includes two displays, lenses, and backlights, and as higher level assemblies or HLA for military customers. A HLA is similar to a module but includes additional components such as an eye cup specific to a military application.

We have sold our AMLCD products to Collins Aerospace, Elbit, Raytheon Company and DRS RSTA Inc. for use in military applications, to Google, Vuzix and RealWear for enterprise wearable products, and to Scott Safety for public safety applications. We have sold our LCOS display products to Saki, Jutze and Mirtec for use in 3D metrology equipment. Our revenues from our OLED displays have primarily been from development contracts with customers that are designing our displays into their products.

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

For fiscal years 2019, 2018 and 2017, sales to military customers, excluding research and development contracts, as a percentage of total revenue were 30%, 36% and 48%, respectively. For fiscal year 2019, RealWear and DRS Network & Imaging Systems LLC each accounted for approximately 20% and 17% of our revenue, respectively.

For fiscal years 2019, 2018 and 2017, research and development revenues, primarily from multiple contracts with various U.S. government agencies, accounted for approximately 17%, 20% and 11%, respectively, of our total revenues.

Product Development

We believe that continued introduction of new products in our target markets is essential to our growth. Our industrial and consumer products tend to have one to three year life cycles. We have assembled a group of highly skilled engineers who work internally as well as with our customers to continue our product development efforts. Our primary development efforts are focused on AMLCD display subassemblies for military applications and OLED display components for military, industrial and consumer applications.

Component Products

Our display product development efforts are focused towards continually enhancing the resolution, performance and manufacturability of our display products. A principal focus of this effort is the improvement of manufacturing processes for very small active matrix pixels with our eight-inch wafer manufacturing line. The pixel size of our current transmissive display products ranges from 6.8 to 15 microns. These pixel sizes are much smaller than a pixel size of approximately 100 microns in a typical laptop computer display. The resolutions of our current commercially available AMLCD display products are 320 x 240, 432 x 240, 640 x 360, 640 x 480, 854 x 480, 800 x 600, 1,280 x 720, 1,280 x 1,024 and 2048 x 2048. We are also working on further decreasing the power consumption of our display products. The pixel size of our current reflective display products ranges from 8.2 to 13.6 microns. The resolutions of our current commercially available reflective display products are 1,280 x 768, 1,280 x 1,024, 2,048 x 1,536, 2048 x 2048 pixels, 2,560 x 1,440 pixels. The pixel size of our current OLED displays range from 8.4 to 9.2 microns with resolutions of 1,280 x 720, 2048 x 2048 and 2,560 x 2,560. Additional display development efforts include expanding the resolutions offered, increasing the quantity of display active matrix pixel arrays processed on each wafer by further reducing the display size, increasing the light throughput of our pixels, increasing manufacturing yields, and increasing the functionality of our products.

We offer components such as our optical lenses, backlights and ASICs, manufactured to our specifications, which we then buy and resell. The components which are made to order include either intellectual property we developed or that we license from third parties.

Funded Research and Development

We have entered into various development contracts with agencies and prime contractors of the U.S. government and commercial customers. These contracts help support the continued development of our core technologies. We intend to continue to pursue development contracts for applications that relate to our commercial and military product applications. Our contracts contain certain milestones relating to technology development and may be terminated prior to completion of funding. Our funded development projects often lead to a product or component supply agreement. Our policy is to retain our proprietary rights with respect to the principal commercial applications of our technology, however, we are not always able to retain our proprietary rights. To the extent technology development has been funded by a U.S. federal agency, under applicable U.S. federal laws the federal agency that provided the funding has the right to obtain a non-exclusive, non-transferable, irrevocable, fully paid license to practice or have practiced this technology for governmental use. For our commercial development agreements customers often obtain exclusive rights to a particular display or technology that is developed either permanently or for some period of time. Revenues attributable to research and development contracts for fiscal years 2019, 2018 and 2017 totaled \$5.0 million, \$5.3 million and \$2.9 million, respectively.

Competition

The general commercial display market is highly competitive and is currently dominated by large Asian-based electronics companies including AUO, BOE Technology Group, Himax, LG Display, Samsung, Sharp, Seiko and Sony. The display market consists of multiple segments, each focusing on different end-user applications applying different technologies. Competition in the display field is based on price and performance characteristics, product quality, size and the ability to deliver products in a timely fashion. The success of our display product offerings will also depend upon the adoption of our display products by consumers as an alternative to traditional active matrix LCDs or OLEDs and upon our ability to compete against other types of well-established display products and new emerging display products. Particularly significant is a consumer's willingness to use a near eye display device, as opposed to a direct view display which may be viewed from a distance of several inches to several feet. In addition, companies such as Samsung and Oculus are offering products which use a cell phone or a cell phone display to provide the image. Cell phone displays typically have lower resolution and greater image latency than our products but are lower in cost on a per square inch basis. We cannot be certain that we will be able to compete against these companies and technologies, or that the consumer will accept the use of such eyewear in general or our customer's product form-factor specifically.

There are also a number of AMLCD, LCOS, OLED and alternative display technologies in development and production. These technologies include plasma, micro light emitting diodes ("LEDs") and virtual retinal displays, some of which target the high performance small form-factor display markets in which our military and industrial display products are sold. There are many large and small companies that manufacture or have in development products based on these technologies. Our display products will compete with other displays utilizing these and other competing display technologies.

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

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 U.S. and foreign patents and contractual arrangements. We intend to prosecute and defend our proprietary technology aggressively. Many of our U.S. patents and applications have counterpart foreign patents, foreign patent applications or international patent applications through the Patent Cooperation Treaty.

Government Regulations

We are subject to a variety of federal, state and local governmental regulations including the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing process. The failure to comply with present or future regulations could result in fines being imposed on us, suspension of production or cessation of operations. Any failure on our part to control the use of, or adequately restrict the discharge of, hazardous substances, or otherwise comply with environmental regulations, could subject us to significant future liabilities. In addition, we cannot be certain that we or our suppliers 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. Certain chemicals we import are subject to regulation by the U.S. government. If we or our suppliers do not comply with applicable laws, we could be subject to adverse government actions and may not be able to import critical supplies.

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

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

Investments in Related Businesses

On September 30, 2019 we entered into the Solos Purchase Agreement with Solos Technology, pursuant to which we sold and licensed to Solos Technology certain assets of our Solos product line and Whisper technology. As consideration for the transaction we received 1,172,000 common shares representing a 20.0% equity stake in the Solos Technology's parent company, Solos Inc. Our 20.0% equity stake will be maintained until Solos Inc. has raised a total of \$7.5 million in equity financing after which we will have to participate in future equity offerings or have our ownership percentage decline. We performed a fair market value assessment of our 20.0% ownership interest and recorded a gain on investment of \$0.6 million as the basis of assets transferred was zero.

We acquired an equity interest in a company in the first quarter of 2018 for \$1.0 million and the Company also contributed certain intellectual property. As of December 28, 2019, we own an 11% interest in this investment and the carrying value of our investment is \$3.6 million.

We licensed certain intellectual property to RealWear, Inc. ("RealWear") and received a warrant to exercise 15% of the equity in RealWear's next equity offering. We exercised the warrant in the second quarter of 2018 and received 15% of the shares in the equity offering. In 2019 we made an additional equity investment in RealWear of \$2.5 million as part of an equity raise by the company. In the fourth quarter of 2019 Kopin reviewed the financial condition and other factors of RealWear and as a result, in the fourth quarter of 2019, we recorded an impairment charge of \$5.2 million to reduce our investment in RealWear to zero as of December 28, 2019.

In March 2017, we purchased 100% of the outstanding stock of NVIS, a producer of virtual reality systems for 3D applications, for \$3.7 million. As part of the purchase, we agreed to pay an additional \$2.0 million if certain future operating performance milestones are met and the selling shareholders remain employed with NVIS through March 2020. As of December 28, 2019, we estimate that the former owners have earned approximately \$1.8 million of the \$2.0 million and we have paid \$1.3 million of the \$2.0 million. As there is a requirement to remain employed to earn the contingent payments, these contingent payments are treated as compensation expense. We consolidate NVIS' financial results within our consolidated financial statement.

We own 100% of the outstanding common stock of Forth Dimension Displays Ltd. ("FDD") and 80% of the outstanding common stock of e-MDT America ("eMDT") and we consolidate their financial results within our consolidated financial statements.

We have liquidated our subsidiary, Kowon, in December of 2018 and our subsidiary, Kopin Software Ltd., in Q3 2019.

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

Employees

As of December 28, 2019, our consolidated business employed 153 individuals. Of these employees, eight 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. Our employees are located in the U.S., Europe and Asia and the laws regarding employee relationships are different by jurisdiction. None of our employees are covered by a collective bargaining agreement. We consider relations with our employees to be good.

Sources and Availability of Raw Materials and Components

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

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

Web Availability

We make available free of charge through our website, www.kopin.com, our Annual Reports on Form 10-K and other reports that we file or furnish with the SEC as soon as reasonably practicable after they are filed or furnished, as well as certain of our corporate governance policies, including the charters for the Board of Directors' audit, compensation and nominating and corporate governance committees and our code of ethics, corporate governance guidelines and whistleblower policy. We will also provide to any person without charge, upon request, a copy of any of the foregoing materials. Any such request must be made in writing to us, c/o Investor Relations, Kopin Corporation, 125 North Drive, Westborough, MA, 01581.

Information about our Executive Officers

The following sets forth certain information with regard to our executive officers as of March 11, 2020 (ages are as of December 28, 2019):

John C.C. Fan, age 76

- President, Chief Executive Officer and Chairman
- Founded Kopin in 1984

Bor-Yeu Tsaur, age 64

- Executive Vice President—Display Operations
- Joined Kopin in 1997

Richard A. Sneider, age 59

- Treasurer and Chief Financial Officer
- Joined Kopin in 1998

Hong Choi, age 68

- Vice President and Chief Technology Officer
- Joined Kopin in 2000

Paul C. Baker, age 57

- Strategic Business Officer
- Joined Kopin in 2014

Item 1A. Risk Factors

Our management has identified a material weakness in our internal control over financial reporting and has concluded that, due to such material weakness, our disclosure controls and procedures were not effective as of the end of our most recent fiscal year, December 28, 2019. If not remediated, our failure to establish and maintain effective disclosure controls and procedures and internal control over financial reporting could result in material misstatements in our financial statements and a failure to meet our reporting and financial obligations, each of which could have a material adverse effect on our financial condition and the trading price of our common stock. As discussed in Item 9A, "Controls and Procedures" in Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the fiscal year ended December 29, 2018, we had re-evaluated our internal control over financial reporting and our disclosure controls and procedures and concluded that they were not effective as of December 29, 2018 because of a material weakness. As discussed below in Item 9A, "Controls and Procedures" in this Form 10-K, our management concluded that, as of December 28, 2019, internal control over financial reporting was not effective because of that same material weakness. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As of December 28, 2019, we have not had sufficient opportunity to test whether our corrective actions have remedied the material weakness, and therefore management concluded that the material weakness has not been remedied as of December 28, 2019. We are committed and are taking steps necessary to remediate the control deficiencies that constituted the material weakness by implementing changes to our internal control over financial reporting. We are in the process of designing and implementing measures to remediate the underlying causes of the control deficiencies that gave rise to the material weakness.

If our stock price continues to remain below \$1.00, our common stock may be subject to delisting from The Nasdaq Stock Market. On October 9, 2019, we received a notice from The Nasdaq Stock Market ("Nasdaq") that the Company is not in compliance with Nasdaq's Listing Rule 5450(a)(1), as the minimum bid price of the Company's common stock had been below \$1.00 per share for 30 consecutive business days. The notification of noncompliance has no immediate effect on the listing or trading of Kopin's common stock on the Nasdaq Global Market under the symbol "KOPN." The Company has 180 calendar days, or until April 6, 2020, to achieve compliance with the minimum bid price requirement. To regain compliance, the minimum bid price of Kopin's common stock must meet or exceed \$1.00 per share for a minimum ten consecutive business days during this 180-day grace period. The Company's failure to regain compliance during this period could result in delisting. A special meeting of stockholders was held on March 2, 2020 where stockholders of record as of the record date of January 13, 2020 approved an amendment to our Amended and Restated Certificate of Incorporation to effect a reverse stock split of our issued and outstanding shares of our common stock, par value \$.01 per share, by a ratio of between one-for-two and one-for-twenty, inclusive, with the exact ratio to be set at a whole number to be determined by our Board of Directors or a duly authorized committee thereof in its discretion, at any time after approval of the amendment. We believe that such a reverse stock split, if effected, will cause our common stock to trade at a price above \$1.00 per share. However, there can be no assurance that our stock price will increase to above \$1.00 per share, whether as a result of a reverse stock split or otherwise, or that we will be able to regain compliance with Nasdaq's rule or will otherwise be in compliance with other Nasdaq listing criteria.

We have experienced a history of losses, have a significant accumulated deficit, have had negative cash flow from operating activities in 2019, 2018, and 2017, and expect to have negative cash flow from operating activities in 2020. Since inception, we have incurred significant net operating losses. As of December 28, 2019, we had an accumulated deficit of \$301.2 million. At December 28, 2019 and December 29, 2018, we had \$21.8 million and \$37.2 million of cash and cash equivalents and marketable securities, respectively. For the years 2019 and 2018, net cash used in operating activities was \$21.0 million and \$28.1 million, respectively. The decline in our cash and cash equivalents and marketable securities is primarily a result of funding our operating losses, of which a significant component is our investments in research and development. We plan to continue to invest in research and development even during periods when we are not profitable, which may result in our incurring losses from operations and negative cash flow. If we do not soon achieve and maintain positive cash flow and profitability, our financial condition will ultimately be materially and adversely affected, and we will be required to raise additional capital. We may not be able to raise any necessary capital on commercially reasonable terms or at all. If we fail to achieve or maintain profitability on a quarterly or annual basis within the timeframe expected by investors, the market price of our common stock may decline.

Our history of net operating losses and our accumulated deficit raise doubt regarding our ability to continue as a going concern. If we do not continue as a going concern, investors could lose their entire investment. Our ability to continue as a going concern is dependent upon our becoming profitable in the future or to obtain the necessary capital to meet our obligations and repay our liabilities when they become due. Our determination of doubt as a going concern could materially limit our

ability to raise additional funds through the issuance of equity securities or otherwise. There can be no assurance that we will ever become profitable or continue as a going concern.

Our revenues and cash flows could be negatively affected if sales of our Display products for military applications significantly decline. The sale of our display products to the military for use in thermal weapon sights and avionic helmets have been a primary source of our military revenues and cash flows over the last several years. We currently are designed in certain systems and are in qualification for other certain systems in the Family Weapon Sight ("FWS") program, which we believe is the next significant government procurement program that will use our technology. We may not be awarded contracts for the systems we are in qualification for, and for the systems we are qualified for we may only be awarded a portion of the program as the U.S. military looks to have multiple sources when possible. In addition, the government could postpone or cancel the programs. Our ability to generate revenues and cash flow from sales to the U.S. military depends on our Display products being qualified and remaining qualified in the F-35 Strike Fighter, FWS and other U.S. military programs and on the U.S. military funding these programs. We believe the U.S. military is evaluating alternative display technologies for the F-35 Strike Fighter program. Our ability to generate revenues and cash flow from sales to the U.S. military also depends on winning contracts over our competitors. If we are unable to be qualified into new U.S. military programs, remain qualified in existing programs, or win orders against our competition, or if military programs are not funded, then our ability to generate revenues and achieve profitability and positive cash flow will be negatively impacted.

We generally do not have long-term contracts with our customers, which makes forecasting our revenues and operating results difficult. We generally do not enter into long-term agreements with our customers obligating them to purchase our products. Our business is characterized by short-term purchase orders and shipment schedules and we generally permit orders to be canceled or rescheduled before shipment without significant penalty. As a result, our customers may cease purchasing our products at any time, which makes forecasting our revenues difficult. In addition, due to the absence of substantial non-cancelable backlog, we typically plan our production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. The uncertainty of product orders makes it difficult for us to forecast our sales and allocate our resources in a manner consistent with our actual sales. Moreover, our expense levels and the amounts we invest in capital equipment and new product development costs are based in part on our expectations of future sales and, if our expectations regarding future sales are inaccurate, we may be unable to reduce costs in a timely manner to adjust for sales shortfalls. If we fail to accurately forecast our revenues and operating results, our business may not be successful and the price of our common stock may decline. 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.

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 numerous reasons, including:

- The timing of the initial selection of our Wearable technology and display products as components in our customers' new products;
- Availability of interface electronics for our display products;
- 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.

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.

Our ability to manufacture and distribute our Display products would be severely limited if the foundries that we rely on to manufacture integrated circuits for our Display products fail to provide those services. We depend principally on a Taiwanese foundry for the fabrication of integrated circuits for our display products. In addition, our strategy is to use Chinese foundry services for OLED deposition and processing of OLED displays. We have no long-term contracts with foundries and from time to time we have been put on allocation, which means the foundry will limit the number of wafers they will process for us. If foundries were to terminate their arrangement with us or become unable to provide the required capacity and quality on a timely basis, we may not be able to manufacture and ship our Display products or may be forced to manufacture them in

limited quantities until replacement foundry services can be obtained. Furthermore, we cannot assure that we would be able to establish alternative manufacturing and packaging relationships on acceptable terms.

Our reliance on these foundries involves certain risks, including but not limited to:

- Lack of control over production capacity and delivery schedules;
- Limited control over quality assurance, manufacturing yields and production costs;
- The risks associated with international commerce, including unexpected changes in legal and regulatory requirements, changes in tariffs and trade policies and political and economic instability; and
- Natural disasters such as earthquakes, tsunamis, mudslides, drought, hurricanes and tornadoes.

Due to natural disasters such as earthquakes and typhoons that have occasionally occurred in Asia, many Taiwanese companies, including the Taiwanese foundry we use, have experienced related business interruptions. Our business could suffer significantly if any of the foundries we use had operations disrupted for an extended period of time due to natural disaster, political unrest or financial instability.

We may be unable to adequately control purchase pricing of certain critical materials, which may materially adversely affect our sales or profitability. We have no long term pricing contracts on foundry wafers and certain other materials that represent a significant portion of product BoM costs. We cannot provide assurance against supplier price increases that negatively impact the cost of producing products, which may adversely affect sales or profitability. Finding and/or qualifying a more cost-effective replacement supplier may take significant time.

Our investments in the development and sale of OLED microdisplays may not be successful which may materially adversely affect our sales, profitability and cash flow. We historically have sold products that incorporate our proprietary AMLCDs. We believe that for certain applications OLED microdisplays have performance advantages and we believe some customers will want to switch from AMCLDs to OLED microdisplays in the next two to three years. We are in the process of designing and developing OLED microdisplays. Our plan is to outsource the production of the OLED microdisplays. We have little experience in production outsourcing. We expect to make significant monetary investments in the development of OLED microdisplays. If we are unsuccessful in designing and developing OLED microdisplays or if we are unable to find cost-effective third party production partners our sales and profitability may be negatively affected.

We depend on third parties to provide integrated circuit chip sets and critical raw materials and we periodically receive "end of life" notices from suppliers that they will no longer be providing a raw material. We do not manufacture the integrated circuit chip sets that are used to electronically interface between our display products and our customers' products. Instead, we rely on third party independent contractors for these integrated circuit chip sets. We purchase critical raw materials such as special glasses, special silicon on insulator ("SOI") wafers, light emitting diodes, adhesives, chemicals, lenses, backlights, printed circuit boards and other components from third party suppliers. Some of these third party contractors and suppliers are small companies with limited financial resources. In addition, relative to the commercial market, the military buys a small number of units, which prevents us from qualifying and buying components economically from multiple vendors. We periodically receive notices from suppliers of our critical raw materials regarding their plans to stop selling those raw materials. This requires us to identify another raw material and/or raw material supplier to replace the discontinued item/supplier, which would then require us to internally re-qualify the product with the new material as well as possibly re-qualify the product with our customer. If any of these third party contractors or suppliers were unable or unwilling to supply these integrated circuit chip sets or critical raw materials to us, whether for business or regulatory reasons, we would be unable to manufacture and sell our display products until a replacement material could be found. We may not be able to find a replacement material or if we are able to find a replacement material we may be unable to sell our products until they have been qualified both internally and with the customer. Lower volume purchases may make it uneconomical for some of our suppliers to provide the raw materials we need. We cannot assure investors that a replacement third party contractor or supplier could be found on reasonable terms or in a timely manner. Any interruption in our ability to manufacture and distribute our display products could cause our display business to be unsuccessful and the price of our common stock may decline.

Widespread health problems, such as the outbreak and spread of the coronavirus, could materially adversely affect our business. The initial manufacturing steps for our AMLCD display products, our primary source of revenues, are performed in Taiwan and the product is then sent to the U.S. for completion. To complete the display in the USA we need to source raw materials and components from Asia. The initial manufacturing steps for our new OLED displays are performed in Asia and then sent to China for substantial completion. In addition, certain of our logistics and shipping operations are in Hong Kong. We also have other operations in Asia. We have many customers in Asia. Pandemics and epidemics such as the current coronavirus outbreak or other widespread public health problems could negatively affect our business. If, for example, the

coronavirus progresses in ways that disrupts the manufacture or shipment of our products or otherwise disrupt our operations, such disruption may materially negatively affect our operating results for 2020 and possible subsequent periods, including billings, revenue, gross margins, operating margins, cash flows and other operating results and our overall business. If the coronavirus spreads in ways that continue to negatively affect the overall economy and buying patterns of partners or potential customers, this would negatively affect, and may materially negatively affect, our sales, operating results or business. If the spread of the coronavirus limits the manufacturing of our products, by limiting components available this likely would result in lower revenue and would negatively affect, and may materially negatively affect, our operating results, cash flow and business.

The markets in which we operate are highly competitive and rapidly changing and we may be unable to compete successfully. There are a number of companies that develop or may develop products that compete in our targeted markets. The individual components that we offer for sale (displays, optical lenses, backlights and ASICs) are also offered by companies whose sole business focuses on that individual component. For example, there are companies whose sole business is to sell optical lenses. Accordingly, our strategy requires us to develop technologies and to compete in multiple markets. Some of our competitors are much larger than we are and have significantly greater financial, development and marketing resources than we do. The competition in these markets could adversely affect our operating results by reducing the volume of the products we sell or the prices we can charge. These competitors may be able to respond more rapidly than us to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than we do.

Our success will depend substantially upon our ability to enhance our products and technologies and to develop and introduce, on a timely and cost-effective basis, new products and features that meet changing customer requirements and incorporate technological enhancements. If we are unable to develop new products and enhance functionalities or technologies to adapt to these changes, our business will suffer.

Disruptions of our production could 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 our products to our customers. Many of our sales contracts include financial penalties for late delivery. In the past, we have experienced power outages at our facilities, which ranged in duration from one to four days. We have certain critical pieces of equipment necessary to operate our facilities that are no longer offered for sale and we may not have service contracts or spare parts for the equipment. Additionally, as we introduce new equipment into our manufacturing processes, our display 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.

A disruption to our information technology systems could significantly impact our operations, revenue and profitability. Our data processing systems and our Enterprise Resource Planning ("ERP") software are cloud-based and hosted by third parties. We also use software packages that are no longer supported by their developer. We have experienced short-term (i.e., a few days) interruptions in our Internet connectivity. An interruption of the third party systems or the infrastructure that allows us to connect to the third party systems for an extended period may affect our ability to operate our business and process transactions, which could result in a decline in sales and affect our ability to achieve or maintain profitability.

If our information technology security systems were penetrated and confidential and or proprietary information were taken, we could be subject to fines, lawsuits and loss of customers. Significantly larger organizations with much greater resources than us have been the victim of cybercrimes. We routinely receive emails probing our Internet security, and our Internet security systems have detected outside organizations attempting to install Trojan virus software packages in our systems. We rely on our electronic information systems to perform the routine transactions to run our business. We transact business over the Internet with customers, vendors and our subsidiaries and have implemented security measures to protect unauthorized access to this information. We have also implemented security policies that limit access via the Internet from the Company to the outside world based on the individual's position in the Company. We routinely receive security patches from software providers for the software we use. Our primary concerns are inappropriate access to personnel information, information covered under the International Traffic in Arms Regulation, product designs and manufacturing information, financial information and our intellectual property, trade secrets and know-how.

We may not achieve some or all of the anticipated benefits of sale of our Solos product line and Whisper technology, which may adversely affect our business. On September 30, 2019 we entered into the Solos Purchase Agreement with Solos Technology, pursuant to which we sold and licensed certain assets of our Solos product line and Whisper technology. We will also receive a royalty in the single digits on the net sales amount of Solos products for a three-year period, after commencement of commercial production. As consideration for the transaction, we received 1,172,000 common shares representing a 20.0% equity stake in Solos Technology's parent company, Solos Inc. Our 20.0% equity stake will be maintained until Solos Inc. has

raised a total of \$7.5 million in equity financing, after which we will have to participate in future equity offerings or have our ownership percentage decline. We may not be able to achieve the full strategic, financial or other benefits expected to result from the Solos Purchase Agreement, or such benefits may be delayed or not occur at all. Specifically, (i) we may not derive any royalty revenue from the net sales amount of Solos products if little or no such sales occur, and (ii) the equity stake we have in Solos Inc. may decrease in value or lose its value completely. If we fail to achieve some or all of the expected benefits of the separation, or if such benefits are delayed, our business, financial condition, results of operations and the value of our stock could be adversely affected.

If we are unable to obtain or maintain existing software license relationships or other relationships relating to the intellectual property we use, our ability to grow revenue and achieve profitability and positive cash flow may be negatively affected. Our headset systems include software that we license from other companies. Should we violate the terms of a license, our license could be canceled. Companies may decide to stop supporting the software we license or new versions of the software may not be compatible with our software, which would require us to rewrite our software, which we may not be able to do. Moreover, the license fees we pay may be increased, which would negatively affect our ability to achieve profitability and positive cash flow.

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 patent applications or that our existing patents or any new patents that may be issued will be sufficient in scope and strength to provide meaningful protection or any commercial advantage to us. We may be subject to or may initiate contested patent or patent application proceedings in the United States Patent and Trademark Office, foreign patent offices or the courts, which can demand significant financial and management resources. Patent applications in the U.S. typically are maintained in secrecy until they are published about 18 months after their earliest claim to priority. As 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 our pending patent applications or the first to file patent applications on such inventions. We also 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 may incur substantial costs in defending our intellectual property and 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 us for inventions made by them while in our employ or consulting for us. These measures may not adequately protect our intellectual property or proprietary rights. Existing trade secret, trademark and copyright laws afford only limited protection and our patents could be invalidated, held to be unenforceable or circumvented. Moreover, the laws of certain foreign countries in which our products are or may be manufactured or sold may not provide full protection of 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 or proprietary rights, our business may not be successful and the price of our common stock may decline.

We cannot be certain that foreign intellectual property laws will allow protection of our intellectual property rights or that others will not independently develop similar products, duplicate our products or design around any patents issued or licensed to us. Our products might infringe upon the patent rights of others, whether existing now or in the future. For the same reasons, the products of others could infringe upon our patent rights. We may be notified, from time to time, that we could be or we are infringing certain patents or 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, and cease the manufacture, use, importation and/or sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to patents of third parties covering the infringing technology. We cannot be certain that licenses will be obtainable on acceptable terms, if at all, or that damages for infringement will not be assessed or that litigation will not occur. The failure to obtain necessary licenses or other rights or litigation arising out of any such claims could adversely affect our ability to conduct our business as we presently conduct it and as we plan to conduct it in the future.

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 in addition to patent ownership. Our employees enter into agreements containing provisions with respect to confidentiality and assignment of rights to us for inventions made by them while in our employ. Agreements with consultants generally provide that rights to inventions made by them while consulting for us will be assigned to us unless the assignment of rights is prohibited by the terms of any of their prior agreements. 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, in which case we may not be able to rely on these trade secrets to prevent our competitors from using them.

Our products could infringe on the intellectual property rights of others. Companies in the display industry steadfastly pursue and protect their intellectual property rights. This has resulted in considerable and costly litigation to determine the validity and enforceability 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 on inventions or other proprietary rights in technology necessary for our business. Periodically, companies inquire about our products and technology in their attempts to assess whether we violate their intellectual property rights. If we are forced to defend against patent infringement claims, we may face costly litigation, diversion of technical and management personnel, and product shipment delays, even if the allegations of infringement are unwarranted. If there are one or more successful claims 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, our business could be adversely affected. We are currently involved in an intellectual property dispute with Blue Radios, Inc., as described under *Item 3. Legal Proceedings*. If the outcome of such dispute is adverse to us, our business could be adversely affected.

Our business could suffer if we lose the services of, or fail to attract, key personnel. 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. 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.

Our customers who purchase display products for military applications typically incorporate our products into their products, which are sold to the U.S. government under contracts. U.S. government contracts generally are not fully funded at inception and may be terminated or modified prior to completion, which could adversely affect our business. Congress funds the vast majority of the federal budget on an annual basis, and Congress often does not provide agencies with all the money requested in their budget. Many of our customers' contracts cover multiple years and, as such, are not fully funded at contract award. If Congress or a U.S. government agency chooses to spend money on other programs, our customers' contracts may be terminated for convenience. Federal laws, collectively called the Anti-Deficiency Act, prohibit involving the government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law. Therefore, the Anti-Deficiency Act indirectly regulates how the agency awards our contracts and pays our invoices. Federal government contracts generally contain provisions, and are subject to laws and regulations, that provide the federal government rights and remedies not typically found in commercial contracts, including provisions permitting the federal government to, among other provisions: terminate our existing contracts; modify some of the terms and conditions in our existing contracts; subject the award to protest or challenge by competitors; suspend work under existing multiple year contracts and related delivery orders; and claim rights in technologies and systems invented, developed or produced by us.

The federal government may terminate a contract with us or our customers either "for convenience" (for instance, due to a change in its perceived needs) or if we default due to our failure or the failure of a general or subcontractor to perform under the contract. If the federal government terminates a contract with one of our customers, our contract with our customers generally would entitle us to recover only our incurred or committed costs, settlement expenses and profit on the work completed prior to termination. However, under certain circumstances, our recovery costs upon termination for convenience of

such a contract may be limited. As is common with government contractors, we have experienced occasional performance issues under some of our contracts. We may in the future receive show-cause or cure notices under contracts that, if not addressed to the federal government's satisfaction, could give the government the right to terminate those contracts for default or to cease procuring our services under those contracts.

In addition, U.S. government contracts and subcontracts typically involve long purchase and payment cycles, competitive bidding, qualification requirements, delays or changes in funding, extensive specification and performance requirements, price negotiations and milestone requirements. Each U.S. government agency often also maintains its own rules and regulations with which we must comply and which can vary significantly among agencies.

Most of our military sales are on a fixed-price basis, which could subject us to losses if there are cost overruns. Under a fixed-price contract, we receive only the amount indicated in the contract, regardless of the actual cost to produce the goods. While firm fixed-price contracts allow us to benefit from potential cost savings, they also expose us to the risk of cost overruns. If the initial estimates that we use to calculate the sales price and the cost to perform the work prove to be incorrect, we could incur losses. In addition, some of our contracts have specific provisions relating to cost, scheduling, and performance. If we fail to meet the terms specified in those contracts, then our cost to perform the work could increase, which would adversely affect our financial position and results of operations. Some of the contracts we bid on have "Indefinite Delivery, Indefinite Quantity" or IDIQ provisions. This means we are bidding a fixed price but are not assured of the quantity the government will buy or when it will buy during the term of the contract. This means we are exposed to the risk of price increases for labor, overhead and raw materials during the term of the contract. We may incur losses on fixed-price and IDIQ contracts that we had expected to be profitable, or such contracts may be less profitable than expected, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

If we fail to keep pace with changing technologies, we may lose customers. Rapidly changing customer requirements, evolving technologies and industry standards characterize our industries. To achieve our goals, we need to enhance our existing products and develop and market new products that keep pace with continuing changes in industry standards, requirements and customer preferences. We may be unable to bring to market technologies and products that are attractive to our customers, and as a result our business, financial condition and results of operations may be materially adversely affected.

If we fail to comply with complex procurement laws and regulations, we could lose business and be liable for various penalties or sanctions. We must comply with laws and regulations relating to the formation, administration and performance of federal government contracts. These laws and regulations affect how we conduct business with our federal government customers. In complying with these laws and regulations, we may incur additional costs, and non-compliance may result in fines and penalties, including contractual damages. Among the more significant laws and regulations affecting our business are:

- The Federal Acquisition Regulation, which comprehensively regulates the formation, administration and performance of federal government contracts;
- The Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with contract negotiations;
- The Cost Accounting Standards and Cost Principles, which impose accounting requirements that govern our right to reimbursement under certain cost-based federal government contracts; and
- Laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes and the export of certain products, services and technical data. We engage in international work falling under the jurisdiction of U.S. export control laws. Failure to comply with these control regimes can lead to severe penalties, both civil and criminal, and can include debarment from contracting with the U.S. government.

Our contracting agency customers may review our performance under and compliance with the terms of our federal government contracts. If a government review or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties or administrative sanctions, including:

- Termination of contracts;
- Forfeiture of profits;
- Cost associated with triggering of price reduction clauses;
- Suspension of payments;
- Fines; and
- Suspension or debarment from doing business with federal government agencies.

Additionally, the False Claims Act provides for substantial civil penalties where, for example, a contractor presents a false or fraudulent claim to the government for payment or approval. Civil actions under the False Claims Act may be brought by the government or by other persons on behalf of the government (who may then share a portion of any recovery).

If we fail to comply with these laws and regulations, we may also suffer harm to our reputation, which could impair our ability to win awards of contracts in the future or receive renewals of existing contracts. If we are subject to civil or criminal penalties and administrative sanctions or suffer harm to our reputation, our current business, future prospects, financial condition, or operating results could be materially harmed.

The U.S. government may also revise its procurement practices or adopt new contracting rules and regulations, including cost accounting standards, at any time. Any new contracting methods could be costly to satisfy, be administratively difficult for us to implement and could impair our ability to obtain new contracts.

A decline in the U.S. government defense budget, changes in spending or budgetary priorities, prolonged U.S. government shutdown or delays in contract awards may significantly and adversely affect our future revenues, cash flow and financial results. In recent years, U.S. government appropriations have been affected by larger U.S. government budgetary issues and related legislation. In 2011, Congress enacted the Budget Control Act of 2011 ("BCA"), which established specific limits on annual appropriations for fiscal years ("FY") 2012-2021 and has since been amended a number of times, most recently by the Bipartisan Budget Act of 2018 ("BBA18"). As a result, Department of Defense ("DoD") funding levels have fluctuated over this period and have been difficult to predict. Future spending levels are subject to a wide range of outcomes, depending on Congressional action. In addition, in recent years the U.S. government has been unable to complete its budget process before the end of its fiscal year, resulting in both a government shutdown and continuing resolutions to extend sufficient funds only for U.S. government agencies to continue operating. Most recently, the federal government was shut down due to lack of funding for over one month between late 2018 and early 2019. Additionally, the national debt has recently threatened to reach the statutory debt ceiling, and such an event in future years could result in the U.S. government defaulting on its debts.

As a result, defense spending levels are difficult to predict beyond the near-term due to numerous factors, including the external threat environment, future government priorities and the state of government finances. Significant changes in defense spending or changes in U.S. government priorities, policies and requirements could have a material adverse effect on our results of operations, financial condition or liquidity.

Customer demands and new regulations related to conflict-free minerals may adversely affect us. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") imposes disclosure requirements regarding the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries in products, whether or not these products are manufactured by third parties. These requirements could affect the pricing, sourcing and availability of minerals used in the manufacture of semiconductor devices (including our products). We have incurred additional costs associated with complying with the disclosure requirements, such as costs related to determining the source of any conflict minerals used in our products. Our supply chain is complex and we may be unable to verify the origins for all metals used in our products. We purchase materials from foreign sources that may not cooperate and provide us with the necessary information to allow us to comply with the Dodd-Frank Act. This may require us to find alternative sources, which could delay product shipments. We may also encounter challenges with our customers and stockholders if we are unable to certify that our products are conflict-free.

Changes in tax laws, unfavorable resolution of tax examinations, or exposure to additional tax liabilities could have a material adverse effect on our results of operations, financial condition and liquidity. We are subject to taxes in the U.S., Korea, China and the United Kingdom. Governments in the jurisdictions in which we operate implement changes to tax laws and regulations periodically. Any implementation of tax laws that fundamentally change the taxation of corporations in the U.S. or in the foreign jurisdictions in which we operate could materially affect our effective tax rate and could have a significant adverse impact on our financial results.

The 2017 United States Tax Cut and Jobs Act ("Tax Act") significantly changed the taxation of U.S.-based multinational corporations. Our compliance with the Tax Act requires the use of estimates in our financial statements and exercise of significant judgment in accounting for its provisions. The implementation of the Tax Act requires interpretations and implementing regulations by the Internal Revenue Service, as well as state tax authorities. The legislation could be subject to potential amendments and technical corrections, any of which could materially lessen or increase certain adverse impacts of the legislation. As regulations and guidance evolve with respect to the Tax Act, and as we gather information and perform more analysis, our results may differ from previous estimates and may materially affect our financial position.

We may incur significant liabilities if we fail to comply with stringent environmental laws and regulations and the ITAR, or if we did not comply with these regulations in the past. We are subject to a variety of federal, state and local government regulations related to the use, storage, discharge and disposal of toxic or other hazardous chemicals used in our manufacturing process. We are also subject to federal ITAR laws that regulate the export of technical data and export of products to other nations that may use these products for military purposes. The failure to comply with present or future regulations could result in fines, suspension of production, or a cessation of operations. Any failure on our part to control the use of, or adequately restrict the discharge of, hazardous substances, or otherwise comply with environmental regulations, could subject us to significant future liabilities. Any failure on our part to obtain any required licenses for the export of technical data and/or export of our products or to otherwise comply with ITAR, could subject us to significant future liabilities. In addition, we cannot be certain that we have not violated applicable laws or regulations in the past, which violations could result in required remediation or other liabilities. We also cannot be certain that past use or disposal of environmentally sensitive materials in conformity with then existing environmental laws and regulations will protect us from required remediation or other liabilities under current or future environmental laws or regulations.

We may be unable to modify our products to meet regulatory or customer requirements. From time to time our display products are subject to new domestic and international requirements, such as the European Union's Restriction on Hazardous Substances ("RoHS") Directive. Our customers' terms and conditions require us to be in compliance with "all laws." If we are unable to comply with these regulations, we may not be permitted to ship our products, which would adversely affect our revenue and ability to maintain profitability. In addition, if we are found to be in violation of laws we may be subject to fines and penalties.

We may be unable to successfully integrate new strategic acquisitions and investments, which could materially adversely affect our business, results of operations and financial condition. 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 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. In 2017, 2012 and 2011, we acquired 100% of the outstanding shares of NVIS, acquired 80% of the outstanding shares of eMDT Inc. and acquired 100% of the outstanding shares of FDD, respectively. If we are unable to operate eMDT, FDD and NVIS profitably, our results of operations will be negatively affected. We perform periodic reviews to determine if these investments are impaired, but such reviews are difficult and rely on significant judgment about the company's technology, ability to obtain customers, and ability to become cash flow positive and profitable. We may take future impairment charges which will have an adverse impact of on our results of operations.

Additionally, we are a party to several joint ventures and investments where we may have some influence, but not complete control. Accordingly, we have limited control over their governance, financial reporting and operations. As a result, we face certain operating, financial and other risks relating to these investments, including risks related to the financial strength of our joint venture partners, having differing objectives from our partners, compliance risks relating to actions of the joint venture or our partners and the risk that we will be unable to resolve disputes with the joint venture partner. As a result, these investments may not contribute to our earnings or cash flows. In addition, these joint ventures may be required to raise additional capital, which may result in our ownership percentage being decreased.

Changes in China's laws, legal protections or government policies on foreign investment in China may harm our business. Our business and corporate transactions, including operations through our joint ventures, are subject to laws and regulations applicable to foreign investment in China as well as laws and regulations applicable to foreign-invested enterprises. These laws and regulations frequently change, and their interpretation and enforcement involves uncertainties that could limit the legal protections available to us. Regulations and rules on foreign investments in China impose restrictions on the means that a foreign investor like us may apply to facilitate corporate transactions we may undertake. In addition, the Chinese legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. If any of our past operations are deemed to be non-compliant with Chinese law, we may be subject to penalties and our business and operations may be adversely affected. For instance, under the catalogue for the Guidance of Foreign Investment Industries, some industries are categorized as sectors that are encouraged, restricted or prohibited for foreign investment. As the catalogue for the Guidance of Foreign Investment Industries is updated every few years, there can be no assurance that China's government will not change its policies in a manner that would render part or all of our business to fall within the restricted or prohibited categories. If we cannot obtain approval from relevant authorities to engage in businesses that has become prohibited or restricted for foreign investors, we may be forced to sell or restructure such business. Furthermore, China's government has broad discretion in dealing with violations of laws and regulations, including levying

finances, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to us by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. If we are forced to adjust our corporate structure or business as a result of changes in government policy on foreign investment or changes in the interpretation and application of existing or new laws, our business, financial condition, results of operations and prospects may be harmed. Moreover, uncertainties in the Chinese legal system may impede our ability to enforce contracts with our business partners, customers and suppliers, or otherwise pursue claims in litigation to recover damages or loss of property, which could adversely affect our business and operations.

We have no present intention to pay dividends on our common stock in the foreseeable future and, consequently, your only opportunity to achieve a return on your investment during that time is if the price of our common stock appreciates. We have no present intention to pay dividends on our common stock in the foreseeable future. Historically, our earnings, if any, have been retained for the development of our businesses. Any recommendation by our Board to pay dividends will depend on many factors, including our financial condition, results of operations, and other factors. Accordingly, if the price of our common stock declines in the foreseeable future, you will incur a loss on your investment, without the likelihood that this loss will be offset in part or at all by potential future cash dividends.

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.

Our operations are subject to political, legal and economic risks and natural disasters, which could adversely affect our business, results of operations, financial condition and prospects. Credit rating downgrades in certain European countries and/or speculation regarding changes to the composition or viability of the EU create uncertain global economic conditions. The UK's decision to voluntarily exit from the EU, generally referred to as the "Brexit," may trigger short-term financial volatility, including a decline in the value of the Great Britain Pound in comparison to both the U.S. dollar and the Euro. Despite the UK having formally left the EU in January 2020, the future effects of Brexit remain uncertain and will depend on, among other things, the terms of any agreements the UK enters into governing UK access to EU and other markets either during the transitional period that is currently scheduled to end on December 31, 2020. The ongoing uncertainty could have a negative economic impact and result in further volatility in the markets for several years. The impact of the Brexit referendum and such ongoing uncertainty may result in various economic and financial consequences for businesses operating in the UK, the EU and beyond. We hold significant assets in the UK and operate a UK subsidiary, and the future impacts of the Brexit and the continued uncertainty surrounding the EU could have a material impact on our business, financial condition, results of operations and cash flows.

Changes in government trade policies may increase the cost of our products, which may materially adversely affect our sales or profitability. We depend on a Taiwanese foundry for the manufacture of integrated circuits for our AMLCD display products and on Chinese and Korean foundries for our OLED display products. The U.S. and China have recently engaged in trade negotiations, the outcome of which remains uncertain. The U.S. has imposed, among other actions, new or higher tariffs on specified imported products originating from China in response to what it characterizes as unfair trade practices, and China has responded by proposing or implementing new or higher tariffs on specified products imported from the U.S. Tariffs on components that we import from China or other nations that have imposed, or may in the future impose, tariffs have in some cases and may in the future cause our expenses to increase, which would adversely affect our profitability unless we were able to exclude our products from the tariffs or we raise prices for our products, which may result in our products becoming less attractive relative to products offered by our competitors. In addition, future actions or escalations by either the U.S. or China that affect trade relations may also affect our business or that of our suppliers or customers, and we cannot provide any assurances as to whether such actions will occur or the form that they may take. Moreover, it is uncertain to what extent, if any, the U.S. tariffs on components that we import from China will affect the Taiwanese foundries on which we depend, in part because many Taiwanese foundries conduct parts of their manufacturing in China.

A protectionist trade environment in either the U.S. or those foreign countries in which we do business, such as a change in the current tariff structures, export compliance or other trade policies, may materially adversely affect our ability to sell our products in foreign markets. To the extent that our sales or profitability are affected negatively by any such tariffs or other trade actions, our business and results of operations may be materially adversely affected.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease our 74,000 square foot production facility in Westborough, Massachusetts, 10,000 square feet of which is contiguous environmentally controlled production clean rooms operated between Class 10 and Class 1,000 levels. In addition to our Massachusetts facility, we lease a 10,000 square foot facility in San Jose, California which houses our OLED design team and ASIC development. We also have a lease in Tokyo, Japan.

NVIS, our subsidiary in Reston, Virginia, leases 6,100 square feet in Reston. FDD, our subsidiary in Scotland, leases 20,000 square feet in Dalgety Bay, 5,000 square feet of which is contiguous environmentally controlled production clean rooms operated between Class 10 and Class 10,000 levels.

At this time, we believe these properties are suitable for our needs for the foreseeable future.

Item 3. Legal Proceedings

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

BlueRadios, Inc. v. Kopin Corporation, Civil Action No. 16-02052-JLK (D. Col.):

On August 12, 2016, BlueRadios, Inc. ("BlueRadios") filed a complaint in the U.S. District Court for the District of Colorado, alleging that the Company breached a contract between it and BlueRadios concerning an alleged joint venture between the Company and BlueRadios to design, develop and commercialize micro-display products with embedded wireless technology referred to as "Golden-i" breached the covenant of good faith and fair dealing associated with that contract, breached its fiduciary duty to BlueRadios, and misappropriated trade secrets owned by BlueRadios in violation of Colorado law (C.R.S. § 7-74-104(4)) and the Defend Trade Secrets Act (18 U.S.C. § 1836(b)(1)). BlueRadios further alleges that the Company was unjustly enriched by its alleged misconduct, BlueRadios is entitled to an accounting to determine the amount of profits obtained by the Company as a result of its alleged misconduct, and the inventorship on at least ten patents or patent applications owned by the Company need to be corrected to list BlueRadios' employees as inventors and thereby list BlueRadios as co-assignees of the patents. BlueRadios seeks monetary, declaratory, and injunctive relief, including for alleged non-payment of engineering retainer fees.

On October 11, 2016, the Company filed its Answer and Affirmative Defenses. The parties completed expert depositions on November 15, 2019. On December 2, 2019, the Company filed a Motion for Partial Summary Judgment requesting the Court dismiss counts 2-7 in their entirety and counts 1 and 8 in part. BlueRadios also filed a Motion for Partial Summary Judgment alleging it is the co-owner of U.S. Patent No. 8,909,296. Responses to the Motions for Partial Summary Judgment were filed on January 15, 2020, and replies were filed on February 19, 2020. A trial date has not yet been set by the Court. The Company has not concluded a loss from this matter is probable; therefore, we have not recorded an accrual for litigation or claims related to this matter for the period ended December 28, 2019. The Company will continue to evaluate information as it becomes known and will record an estimate for losses at the time or times when it is both probable that a loss has been incurred and the amount of the loss is reasonably estimable.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

Our common stock is traded on the Nasdaq Global Market under the symbol "KOPN".

As of March 9, 2020, there were approximately 84,914,040 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

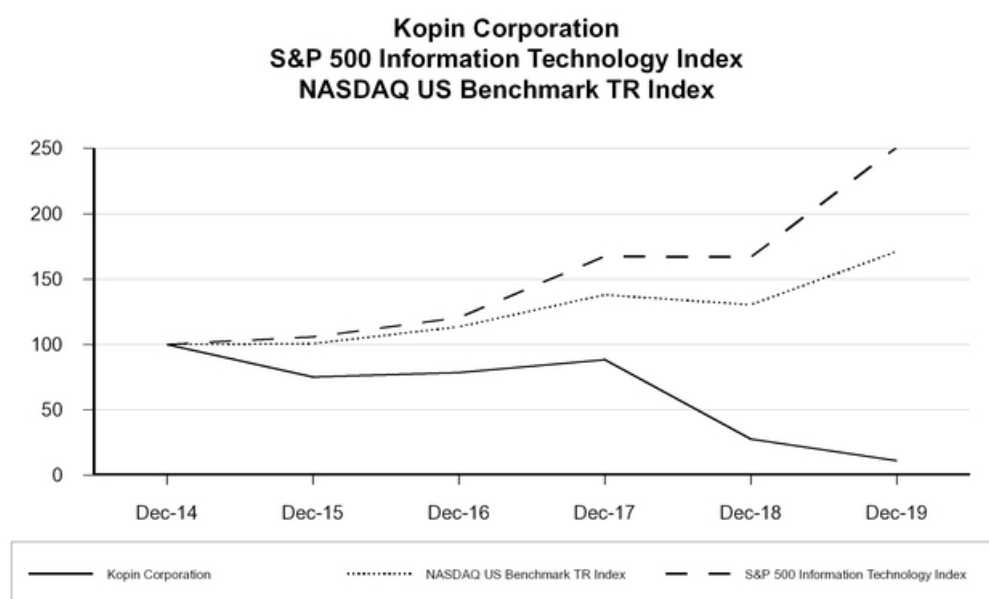
The following table sets forth information as of December 28, 2019 about shares of the Company's common stock issuable upon exercise of outstanding options, warrants and rights and available for issuance under our existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (b)
Equity compensation plans approved by security holders	—	\$ —	1,410,362 ⁽¹⁾
Equity compensation plans not approved by security holders	—	—	—

(1) Amount includes shares available under the 2010 Equity Incentive Plan.

Company Stock Performance

The following graph shows a five-year comparison of cumulative total shareholder return for the Company, the Nasdaq US Benchmark TR Index and the S&P 500 Information Technology index. The graph assumes \$100 was invested in each of the Company's common stock, the Nasdaq US Benchmark TR Index and the S&P 500 Information Technology index on December 31, 2014. Data points on the graph are annual. Note that historical price performance is not necessarily indicative of future performance.



Item 6. Selected Financial Data

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

(in thousands, except per share data)	Fiscal Year Ended				
	2019	2018(1)	2017	2016	2015
Statement of Operations Data:					
Total revenues	\$ 29,519	\$ 24,465	\$ 27,841	\$ 22,643	\$ 32,054
Loss from operations	(26,380)	(39,967)	(30,298)	(20,473)	(25,237)
Total non-operating (expense) income, net	(2,887)	5,514	1,955	571	10,416
Tax (provision) benefit	(108)	(30)	2,963	(3,130)	25
Net loss	(29,374)	(34,482)	(25,380)	(23,031)	(14,843)
Net loss attributable to the controlling interest	(29,506)	(34,534)	(25,240)	(23,568)	(14,693)
Basic and diluted loss per share attributable to Kopin Corporation common stockholders	\$ (0.37)	\$ (0.47)	\$ (0.36)	\$ (0.37)	\$ (0.23)
Weighted average basic and diluted common shares outstanding	80,282	73,157	69,915	64,045	63,466

(in thousands)	Fiscal Year Ended				
	2019	2018 (1)	2017	2016	2015
Balance Sheet Data:					
Cash and cash equivalents and marketable debt securities	\$ 21,782	\$ 37,244	\$ 68,756	\$ 77,198	\$ 80,711
Working capital	22,455	39,037	67,636	70,028	89,879
Total assets	43,047	59,549	91,322	87,832	106,060
Long-term obligations	3,145	1,469	1,839	247	298
Total Kopin Corporation stockholders' equity	\$ 28,609	\$ 47,862	\$ 76,763	\$ 72,742	\$ 93,539

(1) Effective December 31, 2017, the first day of fiscal year 2018, the Company adopted Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) on a modified retrospective basis. As a result of the adoption of this standard, Total revenues, Loss from operations and Total stockholders' equity for fiscal year 2018 in the preceding tables may not be directly comparable to those of prior years. For additional information, refer to Note 1. of the "Notes to Consolidated Financial Statements."

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

Overview

The following discussion should be read in conjunction with our consolidated financial statements and notes to those statements and other financial information appearing elsewhere in this Form 10-K. The following discussion contains forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a number of factors, including the risks discussed in Item 1A "Risk Factors," and elsewhere in this Form 10-K. Please refer to our cautionary note on Forward Looking Statements on page 3 of this Form 10-K.

We are a leading developer, manufacturer and seller of miniature displays and optical lenses (our "components") for sale as individual displays, components, modules or higher-level subassemblies. We also license our intellectual property through technology license agreements. Our component products are used in highly demanding high-resolution portable military, enterprise and consumer electronic applications, training and simulation equipment and 3D metrology equipment. Our products enable our customers to develop and market an improved generation of products for these target applications.

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Critical Accounting Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our audited consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition under the percentage-of-completion method, bad debts, inventories, warranty reserves, investment valuations, valuation of stock compensation awards, recoverability of deferred tax assets, liabilities for uncertain tax positions and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for 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 adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* effective December 31, 2017 (the first day of our fiscal year 2018) and applied the modified retrospective method. Our results for reporting periods beginning after December 31, 2017 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies ASC 605. 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

Substantially all of our product revenues are primarily derived from the sales of microdisplays, which are sold as individual displays, modules which include electronics and optics, or higher-level subassemblies for use in military, industrial and consumer near-eye applications such as avionic helmets, thermal weapon sights or virtual reality headsets. We also have development contracts for the design, manufacture and modification of products for the U.S. government or a prime contractor for the U.S. government or for a customer that sells into the industrial or consumer markets. The Company's contracts with the U.S. government are typically subject to the Federal Acquisition Regulations ("FAR") and are priced based on estimated or actual costs of producing goods. The FAR provides guidance on the types of costs that are allowable in establishing prices for goods provided under U.S. government contracts. The pricing for non-U.S. government contracts is based on the specific negotiations with each customer.

Our fixed-price contracts with the U.S. government or other customers may result in revenue recognized in excess of amounts currently billed. We disclose the excess of revenues over amounts actually billed as Contract assets and unbilled receivables on the balance sheet. Amounts billed and due from our customers are classified as Accounts receivable on the balance sheets. In some instances, the U.S. government retains a small portion of the contract price until completion of the contract. The portion of the payments retained until final contract settlement is not considered a significant financing component because the intent is to protect the customer. For contracts with the U.S. government, we typically receive interim payments either as work progresses or by achieving certain milestones or based on a schedule in the contract. We recognize a liability for these advance payments in excess of revenue recognized and present it as Contract liabilities and billings in excess

of revenue earned on the balance sheets. The advanced payment typically is not considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract and to protect us from the other party failing to adequately complete some or all of its obligations under the contract. For industrial and consumer purchase orders, we typically receive payments within 30 to 60 days of shipments of the product, although for some purchase orders, we may require an advanced payment prior to shipment of the product.

To determine the proper revenue recognition method for contracts with the same customer, we evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. For most of our development contracts and contracts with the U.S. government, the customer contracts with us to provide a significant service of integrating a set of components into a single unit. Hence, the entire contract is accounted for as one performance obligation. Less frequently, however, we may promise to provide distinct goods or services within a contract in which case we separate the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. In cases where we sell standard products, the observable standalone sales are used to determine the standalone selling price.

The Company recognizes revenue from a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

For certain contracts with the U.S. government, the Company recognizes revenue over time as we perform because of continuous transfer of control to the customer and the lack of an alternative use for the product. The continuous transfer of control to the customer is supported by liability clauses in the contract that allow the U.S. government to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. For contracts with commercial customers, while the contract may have a similar liability clause, our products historically have an alternative use and thus, revenue is recognized at a point in time.

In situations where control transfers over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. We generally use the cost-to-cost approach to measure the extent of progress towards completion of the performance obligation for our contracts because we believe it best depicts the transfer of assets to the customer. Under the cost-to-cost measure approach, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred.

Accounting for design, development and production contracts requires judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the size and nature of the work required to be performed on many of our contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables. Contract costs include material, labor and subcontracting costs, as well as an allocation of indirect costs. We have to make assumptions regarding the number of labor hours required to complete a task, the complexity of the work to be performed, the availability and cost of materials, and performance by our subcontractors. For contract change orders, claims or similar items, we apply judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable. If our estimate of total contract costs or our determination of whether the customer agrees that a milestone is achieved is incorrect, our revenue could be overstated or understated and the profits or loss reported could be subject to adjustment.

For our commercial customers, the Company's revenue is recognized when obligations under the terms of a contract with our customer is satisfied and the Company transfers control of the products or services, which is generally upon delivery to the customer. Revenue is recorded as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Provisions for product returns and allowances are reductions in the transaction price and are recorded in the same period as the related revenues. We analyze historical returns, current economic trends and changes in customer demand when evaluating the adequacy of sales returns and other allowances. Certain product sales are made to distributors under agreements allowing for a limited right of return on unsold products. Sales to distributors are primarily made for sales to the distributors' customers and not for stocking of inventory. Sales, value add and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

The Company also licenses its intellectual property through technology license agreements which provides the customer the right to use our IP as it exists at a point in time. These agreements may include other performance obligations including the sale of product to the customer. The satisfaction of the Company's performance obligation, and related recognition of revenue, occurs when the IP is delivered to the customer, the license period has begun and there are no additional performance

obligations in the agreement. When the license is distinct from other obligations in the agreement, the Company treats the license and other performance obligations as separate performance obligations. Accordingly, the license is recognized at a point in time or over time based on the standalone selling price. Under certain license agreements, we may receive royalties based on the sales of the licensed product. We recognize royalty revenue upon the later of when the related sales occur, or when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied). Under our current license agreements for which a royalty exists, we have recorded revenue when the related sales by our customer occurs because the performance obligation related to the delivery of the license to the customer has been satisfied.

Inventory

We provide a reserve for estimated obsolete or unmarketable inventory based on assumptions about future demand and market conditions and our production plans. Inventories that are obsolete or slow moving are generally fully reserved (representing the estimated net realizable value) as such information becomes available. Our display products are manufactured based upon production plans whose critical assumptions include non-binding demand forecasts provided by our customers, lead times for raw materials, lead times for wafer foundries to perform circuit processing and yields. If a customer were to cancel an order or actual demand was lower than forecasted demand, we may not be able to sell the excess display inventory and additional reserves would be required. If we were unable to sell the excess inventory, we would establish reserves to reduce the inventory to its estimated realizable value (generally zero).

Investment Valuation

We periodically make equity investments in private companies, accounted for as an equity investment, whose values are difficult to determine. The Company adopted ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities* and the related amendments on December 31, 2017. The Company adopted the measurement alternative for equity investments without readily determinable fair values (often referred to as cost method investments) on a prospective basis. When assessing investments in private companies for impairment, we consider such factors as, among others, the share price from the investee's latest financing round, the performance of the investee in relation to its own operating targets and its business plan, the investee's revenue and cost trends, the liquidity and cash position, including its cash burn rate and market acceptance of the investee's products and services. Because these are private companies which we do not control we may not be able to obtain all of the information we would want in order to make a complete assessment of the investment on a timely basis. Accordingly, our estimates may be revised if other information becomes available at a later date.

In addition to the above, we make investments in government and agency-backed securities and corporate debt securities. For all of our investments we provide for an impairment valuation if we believe a decline in the value of an investment is other-than-temporary, which may have an adverse impact on our results of operations. The determination of whether a decline in value is other-than-temporary requires that we estimate the cash flows we expect to receive from the security. We use publicly available information such as credit ratings and financial information of the entity that issued the security in the development of our expectation of the cash flows to be received. Historically, we have periodically recorded other than temporary impairment losses, however we have not done so recently.

Income Taxes

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

Our income tax provision is based on calculations and assumptions that will be subject to examination by tax authorities. Despite our history of operating losses there can be exposures for state taxes, federal alternative minimum taxes or foreign tax that may be due. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. Should the actual results differ from our estimates, we would have to adjust the income tax provision in the period in which the facts that give rise to the revision become known. Such adjustment could have a material impact on our results of operations. We have historically established valuation allowances against all of our net deferred tax assets because of our history of generating operating losses and restrictions on the use of certain items. Our evaluation of the recoverability of deferred tax assets has also included analysis of the expiration dates of net operating loss carryforwards. In forming our conclusions as to whether the deferred tax assets are

more likely than not to be realized we consider the sources of our income and the projected stability of those sources and product life cycles.

Goodwill

We account for goodwill in accordance with ASC Topic 350. Under ASC Topic 350, goodwill is considered to have an indefinite life, and is carried at cost. Goodwill is not amortized, but is subject to an annual impairment test, as well as between annual tests when events or circumstances indicate that the carrying value may not be recoverable.

The Company performs impairment tests of goodwill at its reporting unit level. The goodwill valuations that are utilized to test these assets for impairment are depending on a number of significant estimates and assumptions, including macroeconomic conditions, overall growth rates, competitive activities, cost containment, Company business plans and the discount rate applied to cash flows. We believe these estimates and assumptions are reasonable and are comparable to those that would be used by other market participants. However, actual events and results could differ substantially from those used in our valuations. As of December 28, 2019, the ending balance of goodwill was zero.

Results of Operations

We have two principal sources of revenues: product revenues and research and development revenues. Research and development revenues consist primarily of development contracts with agencies or prime contractors of the U.S. government and commercial enterprises.

We manufacture transmissive microdisplays and reflective microdisplays. Our commercial and military transmissive display production is being performed entirely in our Westborough, Massachusetts facility. FDD, our wholly-owned subsidiary, manufactures our reflective microdisplays in its facility located in Scotland. In 2017, we commenced development of OLED displays which are designed by us and manufactured by third parties for us.

We are a display supplier for the U.S. Army's Family of Weapon Sights Individual program and are undergoing qualification for the FWS - Crew Served variant. We are also in development for a new series of displays for armored vehicles under the M1A2 program. The FWS, M1A2 and our existing production avionic programs are expected to increase production for the next several years. There are other firms offering products which compete against us in the military programs and all of the programs we supply product to are subject to the U.S. government military budget and procurement process. Accordingly, there can be no assurances we will continue to ship under our military contracts.

We offer microdisplays and optical lenses for use in consumer, enterprise and public safety products and systems which are targeted at augmented and virtual reality markets, among other areas. We refer to the sale of microdisplays and optical lenses as our component sales. We also offer head mounted, voice and gesture controlled, hands-free headset system designs that include our components and software for consumer and enterprise applications

Because our fiscal year ends on the last Saturday of December every seven years we have a fiscal year with 53 weeks. Our fiscal years 2019, 2018, and 2017 were each 52 week years.

Revenues. Our revenues by display application, which include product sales and amounts earned from research and development contracts, for fiscal years 2019, 2018 and 2017 by category, were as follows:

(In thousands)	2019		2018		2017	
Military	\$	8,729	\$	8,724	\$	13,438
Industrial		9,717		6,066		5,478
Consumer		1,777		4,146		4,406
Research and Development		4,983		5,254		2,947
Other		61		275		1,573
License and royalties		4,252		—		—
Total Revenues	\$	29,519	\$	24,465	\$	27,841

Fiscal Year 2019 Compared to Fiscal Year 2018

Sales of our products for Military applications include systems used by the military both in the field and for training and simulation. Sales of our products for Military applications may be for a one-time purchase order or for programs that run for several years. Product sales to military customers were essentially flat for 2019 and 2018.

Industrial applications revenues represent customers who purchase our display products for use in headsets used for manufacturing, distribution, public safety, 3D metrology equipment and other industrial applications. Our 3D metrology customers are primarily located in Asia and they sell to Asian contract manufacturers who use the 3D metrology machines for quality control purposes. The increase in Industrial applications in 2019 compared to 2018 was primarily due to an increase in sales to customers who use our display components in industrial headsets and safety applications.

Sales of our displays for Consumer applications is primarily for the use in thermal imaging products, recreational rifle and hand-held scopes and drone racing headsets. The decrease in Consumer applications in 2019 compared to 2018 was primarily due to decreased demand for displays and components used in drone racing headsets.

Research & Development ("R&D") revenues decreased in 2019 as compared to 2018 primarily due to the completion of performance obligations on funded U.S. military programs partially offset by revenues from OLED development contracts.

The increase in license and royalty revenue in 2019 is due to the one-time license of IP to RealWear for \$3.5 million and royalties earned under IP license agreements.

International sales represented approximately 48% and 41% of product revenues for 2019 and 2018, respectively. Our international sales are primarily denominated in U.S. currency. Consequently, a strengthening of the U.S. dollar could increase the price in local currencies of our products in foreign markets and make our products relatively more expensive than competitors' products that are denominated in local currencies, which could result in a reduction in sales or profitability in those foreign markets. As a result, our financial position and results of operations are subject to exchange rate fluctuation in transactional and functional currency. We have not taken any protective measures against exchange rate fluctuations, such as purchasing hedging instruments with respect to such fluctuations, because of the historically stable exchange rate between the Japanese yen, Great Britain pound and the U.S. dollar. Foreign currency translation impact on our results, if material, is described in further detail under "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" section below.

Fiscal Year 2018 Compared to Fiscal Year 2017

Sales of our products for Military applications include systems used by the military both in the field and for training and simulation. Sales of our products for Military applications may be for a one-time purchase order or for programs that run for several years. The decrease in sales of products for Military applications in 2018 compared to 2017 was primarily due to the completion of military programs at our subsidiary NVIS in 2017.

Industrial applications revenues represent customers who purchase our display products for use in headsets used for applications in manufacturing, distribution, public safety, 3D metrology equipment and other industrial applications. Our 3D metrology customers are primarily located in Asia and they sell to Asian contract manufacturers who use the 3D metrology machines for quality control purposes. The increase in Industrial applications in 2018 compared to 2017 was primarily due to an increase in sales to customers who use our display components in industrial headsets.

Sales of our displays for Consumer applications is primarily for the use in thermal imaging products, recreational rifle and hand-held scopes and drone racing headsets. The decrease in Consumer applications in 2018 compared to 2017 was primarily due to decreased demand for displays and components used in thermal imaging products and drone racing headsets.

Research & Development ("R&D") revenues increased in 2018 as compared to 2017 primarily due to funding for U.S. military programs.

Historically, we have recognized revenue in the period when we have shipped units of products. For the fiscal year 2018, we adopted Topic 606 and certain revenues are being recorded on the percentage of completion method using a cost-to-cost approach. Prior to the adoption of Topic 606, we believe we would have recorded approximately \$4.1 million as revenue in 2018 and future years, however, with our adoption of Topic 606 the approximately \$4.1 million was recognized as part of the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The 2017 comparative information has not been revised and continues to be reported under the accounting standards in effect for those periods. The Company expects the impact of the adoption of the new standard to be material to the Company's revenues on an ongoing basis.

International sales represented approximately 41% of product revenues for 2018 and 2017, respectively. Our international sales are primarily denominated in U.S. currency. Consequently, a strengthening of the U.S. dollar could increase the price in local currencies of our products in foreign markets and make our products relatively more expensive than competitors' products that are denominated in local currencies, which could result in a reduction in sales or profitability in those foreign markets. As a result, our financial position and results of operations are subject to exchange rate fluctuation in transactional and functional

currency. We have not taken any protective measures against exchange rate fluctuations, such as purchasing hedging instruments with respect to such fluctuations, because of the historically stable exchange rate between the Japanese yen, Great Britain pound and the U.S. dollar. Foreign currency translation impact on our results, if material, is described in further detail under "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" section below.

Cost of Product Revenues. Cost of product revenues, which is comprised of materials, labor and manufacturing overhead related to the production of our products for fiscal years 2019, 2018 and 2017 were as follows:

(In thousands, except percentages)	2019	2018	2017
Cost of product revenues	\$ 20,902	\$ 15,831	\$ 18,118
Cost of product revenues as a % of net product revenues	103.0%	82.4%	72.8%

Fiscal Year 2019 Compared to Fiscal Year 2018

Cost of product revenues increased as a percentage of revenues in 2019 as compared to 2018 primarily due to lower than historical yields from our manufacturing process as a result of initial production of our FWS programs and a charge for inventory obsolescence that resulted from the discontinuance of certain products and the write-off of materials as we have found substitute materials that will provide for better long-term manufacturing yields. The FWS program went into volume production in 2019 and our yields were lower than we historically have as our supply chain took time to consistently meet quality standards.

Fiscal Year 2018 Compared to Fiscal Year 2017

Cost of product revenues increased as a percentage of revenues in 2018 as compared to 2017 because of a decline in sales of our military products, which have higher gross margins than the average gross margin of our other products sold during the same period in 2017.

Research and Development. R&D expenses are incurred in support of internal display development programs or programs funded by agencies or prime contractors of the U.S. government and commercial partners. R&D costs include staffing, purchases of materials and laboratory supplies, circuit design costs, fabrication and packaging of display products, and overhead. In fiscal year 2019, our R&D expenditures were primarily related to our display products and military systems. R&D expenses for fiscal years 2019, 2018 and 2017 were as follows:

(In thousands)	2019	2018	2017
Funded	\$ 4,216	\$ 4,892	\$ 3,365
Internal	9,133	12,553	15,515
Total	\$ 13,349	\$ 17,445	\$ 18,880

Fiscal Year 2019 Compared to Fiscal Year 2018

Funded R&D expense for 2019 decreased as compared to 2018 primarily due to the completion of performance obligations on funded U.S. military programs. Internal R&D expense for 2019 decreased as compared to the prior year primarily due to the licensing of certain products and other development programs being curtailed. We expect to incur significant development costs in fiscal year 2020 to develop OLED display products and military products.

Fiscal Year 2018 Compared to Fiscal Year 2017

Funded R&D expense for 2018 increased as compared to the prior year due to an increase in spending for military programs. Internal R&D expense for 2018 decreased as compared to the prior year primarily due to products moving into the commercialization phase.

Selling, General and Administrative. Selling, general and administrative ("S,G&A") expenses consist of the expenses incurred by our sales and marketing personnel and related expenses, and administrative and general corporate expenses. S,G&A expenses for the fiscal years 2019, 2018 and 2017 were as follows:

(In thousands, except percentages)	2019	2018	2017
Selling, general and administrative expense	\$ 21,316	\$ 27,211	\$ 20,541
Selling, general and administrative expense as a % of total revenue	72.2%	111.2%	73.8%

Fiscal Year 2019 Compared to Fiscal Year 2018

S,G&A for 2019 decreased as compared to the prior year primarily due to decrease of approximately \$2.0 million in non-cash stock-based compensation, \$1.0 million in product promotion and marketing expenses, \$0.8 million in IT spending, \$0.9 million amortization of intangibles and \$0.8 million of accrued contingent consideration which were partially offset by an approximate increase of \$1.0 million in professional fees.

Fiscal Year 2018 Compared to Fiscal Year 2017

S,G&A for 2018 increased as compared to the prior year primarily due to an increase in compensation expenses including increases of \$2.6 million in non-cash stock-based compensation, \$1.3 million in product promotion, \$0.8 million of accrued contingent consideration and \$0.8 million of legal expenses and patent maintenance cost.

Impairment of Goodwill and Intangibles. Goodwill and intangibles are evaluated for impairment annually or more often if indicators of a potential impairment are present. Our annual impairment testing of goodwill is performed separately from our impairment testing of intangibles. The Company performs impairment tests of goodwill at its reporting unit level. The goodwill valuations that are utilized to test these assets for impairment are depending on a number of significant estimates and assumptions, including macroeconomic conditions, overall growth rates, competitive activities, cost containment, Company business plans and the discount rate applied to cash flows. We believe these estimates and assumptions are reasonable and are comparable to those that would be used by other market participants. Impairment of goodwill for the fiscal years 2019, 2018 and 2017 were as follows:

(In thousands)	2019	2018	2017
Impairment of goodwill	\$ 331	\$ 1,417	\$ 600

During fiscal 2019, we recognized a \$0.3 million goodwill impairment charge related to our e-MDT subsidiary. During fiscal 2018, we recognized a \$1.4 million goodwill impairment charge related to our NVIS and our Kopin Software Ltd. subsidiaries. During fiscal year 2017, we recognized a \$0.6 million goodwill impairment charge related to our NVIS subsidiary. See Note 5 of the "Notes to Consolidated Financial Statements" for more information.

Impairment of Assets. The Company periodically reviews the carrying value of its 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. Impairment of assets for the fiscal years 2019, 2018 and 2017 were as follows:

(In thousands)	2019	2018	2017
Impairment of assets	\$ —	\$ 2,527	\$ —

During fiscal 2018, we recognized a \$2.5 million asset impairment charge related to equipment as discussed further in Note 2. of the "Notes to Consolidated Financial Statements."

Total Other Income (Expense), Net. Other income (expense), net, is primarily composed of interest income, foreign currency transaction, remeasurement gains and losses incurred by our UK-based subsidiaries and other non-operating income items. Other income (expense), net, for the fiscal years 2019, 2018 and 2017 were as follows:

(In thousands)	2019	2018	2017
Total other income (expense), net	\$ (2,887)	\$ 5,514	\$ 1,955

Fiscal Year 2019 Compared to Fiscal Year 2018

In 2019 we recorded \$0.2 million of foreign currency gains compared to \$1.2 million of foreign currency losses recorded in 2018. In 2019, we recorded a non-cash \$1.4 million gain on equity investments and an impairment charge of \$5.2 million on equity investment. In 2018, we recorded a non-cash \$2.8 million gain on equity investments. In 2018, the Company received \$1.0 million of insurance proceeds related to the embezzlement at our Korean subsidiary.

Fiscal Year 2018 Compared to Fiscal Year 2017

In 2018 we recorded \$1.2 million of foreign currency gains compared to \$1.0 million of foreign currency losses recorded in 2017. In 2018, we recorded a non-cash \$2.8 million gain on equity investments. In 2018, the Company received \$1.0 million of insurance proceeds related to the embezzlement at our Korean subsidiary. In 2017, we recorded a non-cash \$2.0 million gain on the fair value adjustment of a warrant we received as part of a license of our technology.

Tax benefit (provision)

(In thousands)	2019	2018	2017
Tax (provision) benefit	\$ (108)	\$ (30)	\$ 2,963

Fiscal Year 2019 Compared to Fiscal Year 2018

The provision for income taxes for the fiscal year ended 2019 of \$0.1 million was due to a change in estimates related to uncertain tax positions and deferred tax liabilities for the Company's former Korean subsidiary.

Fiscal Year 2018 Compared to Fiscal Year 2017

The provision for income taxes for the fiscal year ended 2018 of less than \$0.1 million was due to a change in estimates related to uncertain tax positions and deferred tax liabilities for the Company's former Korean subsidiary. The benefit for income taxes for the fiscal year ended 2017 of \$3.0 million was driven by a reduction in foreign tax expense for the rate difference on a dividend distribution from the Company's Korean subsidiary of \$0.8 million, an increase of uncertain tax positions of \$0.2 million, the recognition of \$1.1 million of net deferred tax liabilities in connection with the NVIS acquisition, which provided evidence of recoverability of the Company's net deferred tax assets that previously carried a full valuation allowance and resulted in a reduction in the valuation allowance of \$1.1 million, a \$1.0 million AMT credit that is expected to be refunded in the future and \$0.3 million tax benefit related to the Kowon embezzlement loss.

Net (income) loss attributable to noncontrolling interest. As of December 28, 2019, we owned 80% of the equity of eMDT. Net loss attributable to noncontrolling interest on our consolidated statement of operations represents the portion of the results of operations of our majority owned subsidiaries which is allocated to the shareholders of the equity interests not owned by us. The change in net (income) loss attributable to noncontrolling interest in 2019 compared to 2018 is \$0.1 million and is a result of net income attributable to minority shareholders of eMDT.

The change in net (income) loss attributable to noncontrolling interest in 2018 compared to 2017 is the result of the change in the results of operations of Kowon and eMDT.

Liquidity and Capital Resources

At December 28, 2019 and December 29, 2018, we had cash and cash equivalents and marketable securities of \$21.8 million and working capital of \$22.5 million compared to \$37.2 million and \$39.0 million, respectively. The change in cash and cash equivalents and marketable securities was primarily due to net outflow of cash used in operating activities of \$21.0 million, which was partially offset by net inflow of cash provided by investing activities of \$4.7 million and financing activities of \$8.0 million.

At December 29, 2018 and December 30, 2017, we had cash and cash equivalents and marketable securities of \$37.2 million and working capital of \$39.0 million compared to \$68.8 million and \$67.6 million, respectively. The change in cash and cash equivalents and marketable securities was primarily due to net outflow of cash used in operating activities of \$28.1 million, which was partially offset by net inflow of cash provided by investing activities of \$18.8 million.

On March 15, 2019, the Company sold 7.3 million shares of registered common stock for gross proceeds of \$8.0 million (\$1.10 per share), before deducting underwriting discounts and offering expenses paid by the Company of \$0.7 million. This represented approximately 8.9% of Kopin's total outstanding shares of common stock as of the date of purchase. The net proceeds from the offering were used for general corporate purposes, including working capital. On April 10, 2019, the Company sold 0.7 million shares of registered common stock for gross proceeds of \$0.8 million (\$1.10 per share), before deducting underwriting discounts and offering expenses paid by the Company of less than \$0.1 million, pursuant to the partial exercise of the underwriters' overallotment option in connection with the March 15, 2019 public offering. This represented approximately 0.8% of Kopin's total outstanding shares of common stock as of the date of purchase.

Cash and cash equivalents and marketable debt securities held in U.S. dollars at:

	December 28, 2019	December 29, 2018
Domestic locations	\$ 21,148,381	\$ 36,182,663
Foreign locations	145,240	418,339
Subtotal cash and cash equivalents and marketable debt securities held in U.S. dollars	21,293,621	36,601,002
Cash and cash equivalents held in other currencies and converted to U.S. dollars	488,623	643,361
Total cash and cash equivalents and marketable debt securities	\$ 21,782,244	\$ 37,244,363

We have no plans to repatriate the cash and cash equivalents held in our foreign subsidiary FDD.

The manufacturing operations at our Korean facility, Kowon, have ceased and Kowon was liquidated at fiscal year ended 2018. The Company has approximately \$0.4 million of cash and cash equivalents in Korea at December 28, 2019. The Company has recorded deferred tax liabilities for any additional withholding tax that may be due to the Korean government upon Kowon's final tax return acceptance.

In March 2017, we purchased 100% of the outstanding stock of NVIS for \$3.7 million. We paid approximately \$1.3 million in March 2019 and may be required to pay up to and additional \$0.7 million if certain future operating performance milestones are met and the selling shareholders remain employed with NVIS through March 2020. As there is a requirement to remain employed to earn the contingent payments, these contingent payments will be treated as compensation expense.

We expect to expend between \$1.5 million and \$2.0 million on capital expenditures over fiscal 2020.

The Company entered into an agreement in August 2017 to acquire an approximate 3.5% equity interest in Kunming BOE Display Technology Co., Ltd. ("BOE"), which is located in China, for 35.0 million Chinese Yuan Renminbi (approximately \$5.0 million). The Company's sole obligation under this agreement is to make this capital contribution. The funds raised by the BOE equity offering are being used to build an Organic Light Emitting Diode ("OLED") manufacturing facility which the Company intends to use to manufacture its products. The Company was unable to make its scheduled capital contribution and has received an extension from BOE postponing its capital contribution until July 2022.

In the second quarter of 2019, we made an additional equity investment in RealWear, Inc. of \$2.5 million by participating in an equity raise by RealWear. In the fourth quarter of 2019 Kopin reviewed the financial condition and other factors of RealWear and as a result, in the fourth quarter of 2019, we recorded an impairment charge of \$5.2 million to reduce our investment in RealWear to zero as of December 28, 2019.

On September 30, 2019 the Company entered into the Solos Purchase Agreement with Solos Technology, pursuant to which the Company sold and licensed certain assets of our Solos product line and Whisper technology. As consideration for the transaction, the Company received a 20.0% equity stake in Solos Technology's parent company, Solos Inc. The Company's 20.0% equity stake will be maintained until Solos Inc. has raised a total of \$7.5 million in equity financing. The Company will also receive a royalty in the single digits on the net sales amount of Solos products for a three-year period, after commencement of commercial production. Based on the price paid for equity by the other 80% owners of Solos Inc., volatility based on a peer group and assumptions about the risk free interest rate, the Company estimated the fair value of its' equity holdings at \$0.6 million and recorded \$0.6 million gain on investment for this equity transaction as the basis of assets transferred was zero.

The Company has incurred net losses of \$29.4 million, \$34.5 million and \$25.4 million for the fiscal years ended 2019, 2018 and 2017, respectively, and net cash outflows from operations of \$21.0 million, \$28.1 million and \$25.9 million for the fiscal years ended 2019, 2018 and 2017, respectively. In addition, the Company has continued to experience a significant decline in its cash and cash equivalents and marketable debt securities, which was primarily a result of funding operating losses, of which a significant component relates to the Company's ongoing investments in the research and development of Wearable products. These negative financial conditions raise substantial doubt regarding the Company's ability to continue as a going concern. The Company has an At-The-Money (ATM) registration statement in place which provides the Company a method of selling equity securities into the market on a periodic basis to raise funds. In addition we have in the past sold equity securities in the traditional fashion of a significant equity offerings. We estimate we will have sufficient liquidity to fund operations at least through the end of 2020. If the Company's actual results are less than projected or the Company needs to raise capital for additional liquidity, we may be required to do an equity financing, reduce expenses or enter into a strategic transaction. However, we can make no assurance that we will be able to raise additional capital, reduce expenses sufficiently, or enter into a strategic transaction on terms acceptable to us, or at all.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Seasonality

Our revenues have not followed a seasonal pattern for the past three years and we do not anticipate any seasonal trend to our revenues in 2020.

Inflation

We do not believe our operations have been materially affected by inflation in the last three fiscal years.

Contractual Obligations

The following is a summary of our contractual lease payment obligations as of December 28, 2019:

	Payment due by period				
	Total	Less than 1 year	1-3 Years	4-5 years	More than 5 years
Operating Lease Obligations	\$ 3,105,935	1,193,762	1,912,173	0	\$ —

The Company entered into an agreement in August 2017 to acquire an approximate 3.5% equity interest in Kunming BOE Display Technology Co., Ltd. ("BOE"), which is located in China, for 35.0 million Chinese Yuan Renminbi (approximately \$5.0 million). The Company's sole obligation under this agreement is to make this capital contribution. The funds raised by the BOE equity offering are being used to build an Organic Light Emitting Diode ("OLED") manufacturing facility which the Company intends to use to manufacture its products. The Company was unable to make its scheduled capital contribution and has received an extension from BOE postponing its capital contribution until July 2022.

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

We invest our excess cash in high-quality U.S. government, government-backed (i.e.: Fannie Mae, FDIC guaranteed bonds and certificates of deposit) and corporate debt instruments, which bear lower levels of relative risk. We believe that the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations and cash flows should not be material to our cash flows or income. It is possible that interest rate movements would increase our unrealized gain or loss on debt securities. We are exposed to changes in foreign currency exchange rates primarily through our translation of our foreign subsidiaries' financial position, results of operations, and transaction gains and losses as a result of non U.S. dollar denominated cash flows related to business activities in Asia and Europe, and remeasurement of U.S. dollars to the functional currency of our U.K. subsidiary. We are also exposed to the effects of exchange rates in the purchase of certain raw materials which are in U.S. dollars but the price on future purchases is subject to change based on the relationship of the Japanese yen to the U.S. dollar. We do not currently hedge our foreign currency exchange rate risk. One of our joint venture investments requires us to invest 35 million Chinese Yuan Renminbi. We estimate that any market risk associated with our international operations or investments is unlikely to have a material adverse effect on our business, financial condition or results of operation. Our portfolio of marketable debt securities is subject to interest rate risk although our intent is to hold securities until maturity. The credit rating of our investments may be affected by the underlying financial health of the guarantors of our investments. We use silicon wafers but do not enter into forward or futures hedging contracts.

Item 8. *Financial Statements and Supplementary Data*

The financial statements required by this Item are included in this Report on pages 40 through 74. 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

Evaluation of Disclosure Controls and Procedures

In connection with filing the Form 10-K, management, under the supervision of and with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by our Annual Report on Form 10-K for the fiscal year ended December 28, 2019. Based on such evaluation, management concluded that, as of the end of the fiscal year ended December 28, 2019, that because of the material weakness identified in our internal control over financial reporting discussed below, our disclosure controls and procedures were not effective as of December 28, 2019.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's Board of Directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and include those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our internal control over financial reporting as of December 28, 2019, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013 framework). Based on that evaluation, our management concluded that, as of December 28, 2019, internal control over financial reporting was not effective based on criteria established in Internal Control-Integrated Framework issued by the COSO because of a material weakness previously identified, as discussed below. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

In the course of performing our assessment of internal control over financial reporting in 2019, management identified the material weaknesses in internal controls as of December 29, 2018 related to management's monitoring and oversight of accounting for non-routine transactions. Specifically, our internal controls were not designed effectively to ensure appropriate and timely evaluation of the accounting impact for non-routine transactions, including the accounting for non-controlling interest and other investments. This material weakness continues to exist as of December 28, 2019.

Remediation

We are in the process of remediating this deficiency. To date, we implemented additional review procedures, including increasing the scope of activities from the accounting firm we use to assist us in internal control reviews, to ensure the financial statements we issue are prepared in accordance with GAAP and are fairly presented in all material respects. As of December 28, 2019, we have not had sufficient opportunity to test whether our corrective actions have remedied the material weakness and therefore management concluded that the material weakness has not been remedied as of December 28, 2019.

Changes in Internal Control Over Financial Reporting

Except to the change in our internal controls, as discussed in this Item 9A, there were no changes in our internal control over financial reporting that occurred during the fiscal year ended December 28, 2019 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Kopin Corporation

Opinion on the Internal Control Over Financial Reporting

We have audited Kopin Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 28, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 28, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 28, 2019, of the Company and our report dated March 11, 2020 expressed an unqualified opinion.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. The Company did not design and maintain effective internal controls related to management's monitoring and oversight of accounting for non-routine transactions. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2019 financial statements, and this report does not affect our report dated March 11, 2020 on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Stamford, Connecticut
March 11, 2020

Item 9B. *Other Information*

None.

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required under this item is incorporated herein by reference from our Proxy Statement relating to our 2020 Annual Meeting of Stockholders (the "Proxy Statement"). We expect to file the Proxy Statement with the SEC in March, 2020 (and, in any event, no later than 120 days after the close of our last fiscal year).

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

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

Item 11. *Executive Compensation*

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

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

The information required by this item is incorporated herein by reference from the Proxy Statement. Refer also to the equity compensation plan information set forth in Part II Item 5 of this Annual Report on Form 10-K.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

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

Item 14. *Principal Accounting Fees and Services*

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

Part IV

Item 15. *Exhibits and Financial Statement Schedules*

(1) *Consolidated Financial Statements:*

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(2) *Financial Statement Schedules:*

Financial Statement Schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the accompanying Consolidated Financial Statements or notes thereto.

(3) *Exhibits:*

The exhibits filed as part of this Form 10-K are listed on the exhibit index immediately preceding such exhibits and is incorporated herein by reference.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Kopin Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Kopin Corporation and subsidiaries (the Company) as of December 28, 2019, the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows, for the year then ended, and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 28, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's and subsidiaries' internal control over financial reporting as of December 28, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Our report dated March 11, 2020 expressed an opinion that the Company had not maintained effective internal control over financial reporting as of December 28, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Segment Information

As discussed in Note 15 to the financial statements, the Company changed the composition of its segment information in 2019. We audited the adjustments necessary to restate the 2018 and 2017 segment information provided in Note 15. In our opinion, such adjustments are appropriate and have been properly applied.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and recurring negative operating cash flows that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2019.

Stamford, Connecticut

March 11, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Kopin Corporation

Opinion on the Financial Statements

We have audited, before the effects of the retrospective adjustments to the disclosures for a change in the composition of reportable segments discussed in Note 15 to the financial statements, the consolidated balance sheet of Kopin Corporation and subsidiaries (the "Company") as of December 29, 2018, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows, for the years ended December 29, 2018 and December 30, 2017, and the related notes (collectively referred to as the "financial statements") (the 2018 and 2017 financial statements before the effects of the adjustments discussed in Note 15 to the financial statements are not presented herein). In our opinion, the 2018 and 2017 financial statements, before the effects of the retrospective adjustments to the disclosures for a change in the composition of reportable segments discussed in Note 15 to the financial statements, present fairly, in all material respects, the financial position of the Company as of December 29, 2018, and the results of its operations and its cash flows for the years ended December 29, 2018 and December 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments to the disclosures for a change in the composition of reportable segments discussed in Note 15 to the financial statements, and accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and recurring negative operating cash flows that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company adopted Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers," using the modified retrospective adoption method on December 31, 2017.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

March 13, 2019 (November 7, 2019, as to the effects of the errors discussed in Note 1 to the financial statements)

We served as the Company's auditor since at least 1987; however, an earlier year could not be reliably determined. In 2019 we became the predecessor auditor.

KOPIN CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 28, 2019	December 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,029,247	\$ 14,326,347
Marketable debt securities, at fair value	15,752,997	22,918,016
Accounts receivable, net of allowance of \$938,000 and \$304,000 in 2019 and 2018, respectively	6,023,250	3,088,360
Contract assets and unbilled receivables	921,082	3,089,663
Inventory	3,768,696	4,797,238
Prepaid taxes	104,442	399,611
Prepaid expenses and other current assets	1,164,927	784,790
Total current assets	33,764,641	49,404,025
Property, plant and equipment, net	1,473,341	2,598,842
Operating lease right-of-use assets	2,753,963	—
Goodwill	—	331,344
Other assets	517,411	1,361,375
Equity investments	4,537,159	5,853,525
Total assets	\$ 43,046,515	\$ 59,549,111
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,998,234	\$ 3,921,880
Accrued payroll and expenses	2,203,773	3,038,005
Accrued warranty	509,000	571,000
Contract liabilities and billings in excess of revenue earned	796,794	388,933
Operating lease liabilities	1,041,695	—
Other accrued liabilities	2,235,217	1,901,547
Deferred tax liabilities	525,000	546,000
Total current liabilities	11,309,713	10,367,365
Noncurrent contract liabilities and asset retirement obligations	268,440	271,392
Operating lease liabilities, net of current portion	1,791,590	—
Other long-term liabilities	1,085,160	1,197,533
Commitments and contingencies (Note 13)		
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 84,399,540 shares in 2019 and 80,735,320 shares in 2018; outstanding 82,536,416 in 2019 and 74,008,815 in 2018, respectively	870,496	785,220
Additional paid-in capital	344,456,537	334,491,397
Treasury stock (4,513,256 shares in 2019 and 2018, at cost)	(17,238,669)	(17,238,669)
Accumulated other comprehensive income	1,757,184	1,554,587
Accumulated deficit	(301,236,913)	(271,730,661)
Total Kopin Corporation stockholders' equity	28,608,635	47,861,874
Noncontrolling interest	(17,023)	(149,053)
Total stockholders' equity	28,591,612	47,712,821
Total liabilities and stockholders' equity	\$ 43,046,515	\$ 59,549,111

See Accompanying Notes to Consolidated Financial Statements.

KOPIN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal year ended	2019	2018	2017
Revenues:			
Net product revenues	\$ 20,283,888	\$ 19,211,115	\$ 24,894,805
Research and development and other revenues	9,234,921	5,253,890	2,946,685
Total revenue	29,518,809	24,465,005	27,841,490
Expenses:			
Cost of product revenues	20,901,538	15,831,441	18,118,418
Research and development-funded programs	4,216,161	4,892,066	3,364,658
Research and development-internal	9,132,969	12,553,237	15,515,057
Selling, general and administrative	21,316,459	27,210,849	20,541,244
Impairment of goodwill	331,344	1,417,470	600,086
Impairment of assets	—	2,526,669	—
Total operating expenses	55,898,471	64,431,732	58,139,463
Loss from operations	(26,379,662)	(39,966,727)	(30,297,973)
Non-operating (expense) income, net:			
Interest income	543,759	640,059	775,626
Other income, net	225,617	855,106	247,291
Foreign currency transaction gains (losses)	202,517	1,169,254	(1,068,059)
(Loss) gain on investments	(3,858,453)	2,849,816	2,000,000
Total non-operating income	(2,886,560)	5,514,235	1,954,858
Loss before (provision) benefit for income taxes and net (income) loss of noncontrolling interest	(29,266,222)	(34,452,492)	(28,343,115)
Tax (provision) benefit	(108,000)	(30,000)	2,963,000
Net loss	(29,374,222)	(34,482,492)	(25,380,115)
Net (income) loss attributable to the noncontrolling interest	(132,030)	(51,050)	139,633
Net loss attributable to Kopin Corporation	\$ (29,506,252)	\$ (34,533,542)	\$ (25,240,482)
Net loss per share:			
Basic and diluted	\$ (0.37)	\$ (0.47)	\$ (0.36)
Weighted average number of common shares outstanding			
Basic and diluted	80,282,126	73,156,545	69,914,956

See Accompanying Notes to Consolidated Financial Statements.

KOPIN CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Fiscal year ended	2019	2018	2017
Net loss	\$ (29,374,222)	\$ (34,482,492)	\$ (25,380,115)
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(206,580)	(1,912,427)	1,921,655
Unrealized holding gain (loss) on marketable securities	446,533	(264,949)	148,520
Reclassifications of (loss) gain in net loss on marketable securities	(37,356)	49,525	(6,376)
Other comprehensive income (loss), net of tax	202,597	(2,127,851)	2,063,799
Comprehensive loss	(29,171,625)	(36,610,343)	(23,316,316)
Comprehensive (income) loss attributable to the noncontrolling interest	(132,030)	66,609	69,642
Comprehensive loss attributable to Kopin Corporation	\$ (29,303,655)	\$ (36,543,734)	\$ (23,246,674)

See Accompanying Notes to Consolidated Financial Statements.

KOPIN CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Kopin Corporation Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount							
Balance at December 31, 2016	76,640,943	\$ 766,409	\$327,323,162	\$(42,741,551)	\$ 1,570,971	\$(214,177,388)	\$ 72,741,603	\$ 1,478,040	\$ 74,219,643
Vesting of restricted stock	1,170,847	11,708	(11,708)	—	—	—	—	—	—
Stock-based compensation expense	—	—	3,375,330	—	—	—	3,375,330	—	3,375,330
Other comprehensive income (loss)	—	—	—	—	1,993,808	—	1,993,808	69,991	2,063,799
Restricted stock for tax withholding obligations	(239,752)	(2,397)	(768,926)	—	—	—	(771,323)	—	(771,323)
Distribution to noncontrolling interest holder	—	—	—	—	—	—	—	(791,737)	(791,737)
Sale of unregistered stock	—	—	—	25,502,882	—	(838,632)	24,664,250	—	24,664,250
Net loss	—	—	—	—	—	(25,240,482)	(25,240,482)	(139,633)	(25,380,115)
Balance at December 30, 2017	77,572,038	775,720	329,917,858	(17,238,669)	3,564,779	(240,256,502)	76,763,186	616,661	77,379,847
Vesting of restricted stock	1,093,000	10,930	(10,930)	—	—	—	—	—	—
Stock-based compensation expense	—	—	4,791,054	—	—	—	4,791,054	—	4,791,054
Other comprehensive income	—	—	—	—	(2,010,192)	—	(2,010,192)	(117,659)	(2,127,851)
Restricted stock for tax withholding obligations	(142,972)	(1,430)	(206,585)	—	—	—	(208,015)	—	(208,015)
Distribution to noncontrolling interest holder	—	—	—	—	—	—	—	(699,105)	(699,105)
Adoption of accounting standard	—	—	—	—	—	3,059,383	3,059,383	—	3,059,383
Net (loss) income	—	—	—	—	—	(34,533,542)	(34,533,542)	51,050	(34,482,492)
Balance at December 29, 2018	78,522,066	785,220	334,491,397	(17,238,669)	1,554,587	(271,730,661)	47,861,874	(149,053)	47,712,821
Vesting of restricted stock	634,511	6,345	(6,345)	—	—	—	—	—	—
Stock-based compensation expense	—	—	2,057,400	—	—	—	2,057,400	—	2,057,400
Other comprehensive loss	—	—	—	—	202,597	—	202,597	—	202,597
Restricted stock for tax withholding obligations	(86,086)	(861)	(44,652)	—	—	—	(45,513)	—	(45,513)
Sale of registered stock, net of costs	7,979,181	79,792	7,958,737	—	—	—	8,038,529	—	8,038,529
Net (loss) income	—	—	—	—	—	(29,506,252)	(29,506,252)	132,030	(29,374,222)
Balance at December 28, 2019	87,049,672	\$ 870,496	\$344,456,537	\$(17,238,669)	\$ 1,757,184	\$(301,236,913)	\$ 28,608,635	\$ (17,023)	\$ 28,591,612

See Accompanying Notes to Consolidated Financial Statements.

KOPIN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal year ended	2019	2018	2017
Cash flows from operating activities:			
Net loss	\$ (29,374,222)	\$ (34,482,492)	\$ (25,380,115)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	792,221	1,958,680	2,501,891
Accretion of premium or discount on marketable debt securities	21,838	15,948	41,364
Stock-based compensation	2,057,400	4,791,054	2,296,131
Net (gain)/loss on investment transactions	3,858,453	(2,849,816)	(2,000,000)
Income taxes	105,036	4,185	(2,421,040)
Foreign currency (gains) losses	(220,015)	(1,096,487)	893,260
Loss on sale of property and plant	508,833	51,159	—
Impairment of assets	—	2,526,669	—
Impairment of goodwill	331,344	1,417,470	600,086
Change in allowance for bad debt	633,131	(155,000)	13,000
Write-off of excess inventory	1,834,300	832,615	654,694
Change in warranty reserves	(62,107)	(79,633)	142,328
Changes in assets and liabilities:			
Accounts receivable	(3,944,859)	853,163	(2,376,593)
Contract assets and unbilled receivables	2,168,581	865,474	—
Inventory	(792,165)	(1,656,196)	(1,633,027)
Prepaid expenses, other current assets and other assets	821,340	113,015	(1,084,146)
Accounts payable and accrued expenses	(163,084)	(1,208,848)	1,924,751
Billings in excess of revenue earned	397,121	(4,742)	(85,282)
Net cash used in operating activities	(21,026,854)	(28,103,782)	(25,912,698)
Cash flows from investing activities:			
Proceeds from sale of marketable debt securities	7,454,139	26,646,078	37,536,004
Purchase of marketable debt securities	—	(5,697,329)	(19,633,903)
Cash paid for acquisition, net of cash acquired	—	—	(3,690,047)
Equity investments purchase	(2,500,000)	(1,000,000)	—
Other assets	(41,031)	(8,373)	(140,860)
Capital expenditures	(170,186)	(1,183,131)	(2,794,467)
Net cash provided by investing activities	4,742,922	18,757,245	11,276,727
Cash flows from financing activities:			
Sale of unregistered stock	—	—	24,664,250
Sale of registered stock, net of costs	8,038,529	—	—
Settlements of restricted stock for tax withholding obligations	(45,513)	(208,015)	(771,323)
Distribution to noncontrolling interest holder	—	(699,105)	(791,737)
Net cash provided by (used in) financing activities	7,993,016	(907,120)	23,101,190
Effect of exchange rate changes on cash	(6,184)	(268,223)	560,513
Net (decrease) increase in cash and cash equivalents	(8,297,100)	(10,521,880)	9,025,732
Cash and cash equivalents at beginning of year	14,326,347	24,848,227	15,822,495
Cash and cash equivalents at end of year	\$ 6,029,247	\$ 14,326,347	\$ 24,848,227
Supplemental disclosure of cash flow information:			
Income taxes paid	\$ —	\$ 1,374,000	\$ 281,000
Construction in progress included in accrued expenses	—	—	212,000

See Accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The preparation of consolidated 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. As used in these notes, the terms "we," "us," "our," "Kopin" and the "Company" mean Kopin Corporation and its subsidiaries, unless the context indicates another meaning.

Going Concern

The Company has incurred net losses of \$29.4 million, \$34.5 million and \$25.4 million for the fiscal years ended 2019, 2018 and 2017, respectively, and net cash outflows from operations of \$21.0 million, \$28.1 million and \$25.9 million for the fiscal years ended 2019, 2018 and 2017, respectively. In addition, the Company has continued to experience a significant decline in its cash and cash equivalents and marketable debt securities, which was primarily a result of funding operating losses, of which a significant component relates to the Company's ongoing investments in the research and development of Wearable products. These negative financial conditions raise substantial doubt regarding the Company's ability to continue as a going concern.

The Company's products are targeted towards the military and industrial wearable market. Management believes the industrial wearable market is still developing and cannot predict how long it will take to develop or if the Company's products will be accepted. In addition, the Company's current strategy is to continue to invest in research and development, even during unprofitable periods, which may result in the Company continuing to incur net losses and negative cash flows from operations. If the Company is unable to achieve and maintain positive cash flows and profitability in the foreseeable future, its financial condition may ultimately be materially adversely affected such that management may be required to reduce operating expenses, including investments in research and development, or raise additional capital. While there can be no assurance the Company will be able to successfully reduce operating expenses or raise additional capital, management believes its historical success in managing cash flows and obtaining capital will continue in the foreseeable future.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Correction of Previously Issued Financial Statements

As more fully discussed in Form 10-K/A filed on November 7, 2019, the Company revised its consolidated financial statements as of December 29, 2018 and for the three years in the period ended December 29, 2018 to correct certain errors impacting noncontrolling interest in connection with its Korean subsidiary Kowon.

Fiscal Year

The Company's fiscal year ends on the last Saturday in December. The fiscal years ended December 28, 2019, December 29, 2018, and December 30, 2017 includes 52 weeks and are referred to as fiscal years 2019, 2018 and 2017, respectively, herein. Because our fiscal year ends on the last Saturday of December every seven years we have a fiscal year with 53 weeks.

Principles of Consolidation

The consolidated financial statements include the accounts of the Kopin Corporation, its wholly owned subsidiaries and a majority owned 80% subsidiary, eMDT America Inc. ("eMDT"), located in California (collectively the Company). Net loss attributable to noncontrolling interest in the Company's Consolidated Statement of Operations represents the portion of the results of operations of which is allocated to the shareholders of the equity interests not owned by the Company. All intercompany transactions and balances have been eliminated.

Revenue Recognition - 2019 and 2018

The Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* effective December 31, 2017 and applied the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit. 2017 results have not been revised and continue to be reported under the accounting standards in effect for those periods. The Company expects the impact of the adoption of the new standard to be material to the Company's results of operations on an ongoing basis. Significant changes to the Company's accounting policies as a result of adopting Topic 606 are discussed below.

Substantially all of our product revenues are either derived from the sales of components for use in military applications or our wearable technology components that can be integrated to create industrial and consumer headset systems. We also have development contracts for the design, manufacture and modification of products for the U.S. government or a prime contractor for the U.S. government or for a customer that sells into the industrial or consumer markets. The Company's contracts with the U.S. government are typically subject to the Federal Acquisition Regulations ("FAR") and are priced based on estimated or actual costs of producing goods. The FAR provides guidance on the types of costs that are allowable in establishing prices for goods provided under U.S. government contracts. The pricing for non-U.S. government contracts is based on the specific negotiations with each customer.

Our fixed-price contracts with the U.S. government or other customers may result in revenue recognized in excess of amounts currently billed. We disclose the excess of revenues over amounts actually billed as Contract assets and unbilled receivables on the balance sheet. Amounts billed and due from our customers are classified as Accounts receivable on the balance sheets. In some instances, the U.S. government retains a small portion of the contract price until completion of the contract. The portion of the payments retained until final contract settlement is not considered a significant financing component because the intent is to protect the customer. For contracts with the U.S. government, we typically receive interim payments either as work progresses or by achieving certain milestones or based on a schedule in the contract. We recognize a liability for these advance payments in excess of revenue recognized and present it as Contract liabilities and billings in excess of revenue earned on the balance sheets. The advanced payment typically is not considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract and to protect us from the other party failing to adequately complete some or all of its obligations under the contract. For industrial and consumer purchase orders, we typically receive payments within 30 to 60 days of shipments of the product, although for some purchase orders, we may require an advanced payment prior to shipment of the product.

To determine the proper revenue recognition method for contracts with the same customer, we evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. For most of our development contracts and contracts with the U.S. government, the customer contracts with us to provide a significant service of integrating a set of components into a single unit. Hence, the entire contract is accounted for as one performance obligation. Less frequently, however, we may promise to provide distinct goods or services within a contract in which case we separate the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. In cases where we sell standard products, the observable standalone sales are used to determine the standalone selling price.

The Company recognizes revenue from a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

For certain contracts with the U.S. government, the Company recognizes revenue over time as we perform because of continuous transfer of control to the customer and the lack of an alternative use for the product. The continuous transfer of control to the customer is supported by liability clauses in the contract that allow the U.S. government to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. For contracts with commercial customers, while the contract may have a similar liability clause, our products historically have an alternative use and thus, revenue is recognized at a point in time.

In situations where control transfers over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. We generally use the cost-to-cost approach to measure the extent of progress towards completion of the performance obligation for our contracts because we believe it best depicts the transfer of assets to the customer. Under the cost-to-cost measure approach, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Accounting for design, development and production contracts requires judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the size and nature of the work required to be performed on many of our contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables. Contract costs include material, labor and subcontracting costs, as well as an allocation of indirect costs. We have to make assumptions regarding the number of labor hours required to complete a task, the complexity of the work to be performed, the availability and cost of materials, and performance by our subcontractors. For contract change orders, claims or similar items, we apply judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable. If our estimate of total contract costs or our determination of whether the customer agrees that a milestone is achieved is incorrect, our revenue could be overstated or understated and the profits or loss reported could be subject to adjustment.

For our commercial customers, the Company's revenue is recognized when obligations under the terms of a contract with our customer is satisfied and the Company transfers control of the products or services, which is generally upon delivery to the customer. Revenue is recorded as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Provisions for product returns and allowances are reductions in the transaction price and are recorded in the same period as the related revenues. We analyze historical returns, current economic trends and changes in customer demand when evaluating the adequacy of sales returns and other allowances. Certain product sales are made to distributors under agreements allowing for a limited right of return on unsold products. Sales to distributors are primarily made for sales to the distributors' customers and not for stocking of inventory. Sales, value add and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

The rights and benefits to the Company's intellectual property are conveyed to certain customers through technology license agreements. These agreements may include other performance obligations including the sale of product to the customer. When the license is distinct from other obligations in the agreement, the Company treats the license and other performance obligations as separate performance obligations. Accordingly, the license is recognized at a point in time or over time based on the standalone selling price. The sale of materials is recognized at a point in time, which occurs with the transfer of control of the Company's products or services. In certain instances, the Company is entitled to sales-based royalties under license agreements. These sales-based royalties are recognized when they are earned. Revenues from sales-based royalties under license agreements are shown under Research and development and other revenues on the Company's Consolidated Statements of Operations.

In accordance with the new revenue standard requirements, the impact of adoption on the Company's consolidated statement of operations for the fiscal year 2018 was as follows:

Statement of Operations	As Reported	Balances Without Adoption of Topic 606	Effect of Change Higher/(Lower)
Net product revenues	\$ 19,211,115	\$ 19,726,901	\$ (515,786)
Research and development and other revenues	5,253,890	5,600,066	(346,176)
Cost of product revenues	15,831,441	16,809,343	(977,902)
Net loss attributable to Kopin Corporation	\$ (34,533,542)	\$ (34,649,482)	\$ 115,940

See Note 15. Segments and Disaggregation of Revenue for additional information regarding the disaggregation of the Company's revenue by major source.

Contract Assets

Contract assets include unbilled amounts typically resulting from sales under contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized from customer arrangements, including licensing, exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. Amounts may not exceed their net realizable value. Contract assets are generally classified as current. The Company classifies the noncurrent portion of contract assets under other assets in its condensed consolidated balance sheets.

Contract Liabilities

Contract liabilities consist of advance payments and billings in excess of revenue recognized for the contract.

Performance Obligations

The Company's revenue recognition related to performance obligations that were satisfied at a point in time and over time were as follows:

Fiscal year ended	2019	2018	2017
Point in time	64%	60%	91%
Over time	36%	40%	9%

The value of remaining performance obligations represents the transaction price of orders for which work has not been performed and excludes unexercised contract options and potential orders under ordering-type contracts (e.g., indefinite-delivery, indefinite-quantity ("IDIQ")). As of December 28, 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was \$9.3 million, which the Company expects to recognize revenue over the next 12 months. The remaining performance obligations represent amounts to be earned under government contracts, which are subject to cancellation.

Revenue Recognition - 2017

We recognize revenue if four basic criteria have been met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred and services rendered; (3) the price to the buyer is fixed or determinable; and (4) collectability is reasonably assured. We do not recognize revenue for products prior to customer acceptance unless we believe the product meets all customer specifications and has a history of consistently achieving customer acceptance of the product. Provisions for product returns and allowances are recorded in the same period as the related revenues. We analyze historical returns, current economic trends and changes in customer demand and acceptance of product when evaluating the adequacy of sales returns and other allowances. Certain product sales are made to distributors under agreements allowing for a limited right of return on unsold products. Sales to distributors are primarily made for sales to the distributors' customers and not for stocking of inventory. We delay revenue recognition for our estimate of distributor claims of right of return on unsold products based upon our historical experience with our products and specific analysis of amounts subject to return based upon discussions with our distributors or their customers.

We recognize revenues from long-term research and development government 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 the amount funded by the U.S. government or contracting entity. We recognize revenue for product development and research contracts that have established prices for distinct phases when delivery and acceptance of the deliverable for each phase has occurred. In some instances, we are contracted to create a deliverable which is anticipated to go into full production. In those cases, we discontinue the percentage-of-completion method after formal qualification of the deliverable has been completed and revenue is then recognized based on the criteria established for sale of products. In certain instances, qualification may be achieved and delivery of production units may commence however our customer may have either identified new issues to be resolved or wish to incorporate a newer display technology. In these circumstances new units delivered will continue to be accounted for under the criteria established for sale of products. Under certain of our research and development contracts, we recognize revenue using a milestone methodology. This revenue is recognized when we achieve specified milestones based on our past performance.

We classify amounts earned on contracts in progress that are in excess of amounts billed as unbilled receivables and we classify amounts received in excess of amounts earned as billings in excess of revenues earned. We invoice based on dates specified in the related agreement or in periodic installments based upon our invoicing cycle. We recognize the entire amount of an estimated ultimate loss in our financial statements at the time the loss on a contract becomes known.

Accounting for design, development and production contracts requires judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the size and nature of the work required to be performed on many of our contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables. Contract costs include material, labor and subcontracting costs, as well as an allocation of indirect costs. We have to make assumptions regarding the number of labor hours required to complete a task, the complexity of the work to be performed, the availability and cost of materials, and performance by our subcontractors. For contract change orders, claims or similar items, we apply judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable. We have accounting policies in place to address these as well as other contractual and business arrangements to properly account for long-term contracts. If our estimate of total contract costs or our determination of whether the customer agrees that a milestone is achieved is incorrect, our revenue could be overstated and profits would be negatively impacted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Research and Development Costs

Research and development expenses are incurred in support of internal display product development programs or programs funded by agencies or prime contractors 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 experimental display products, and overhead, and are expensed immediately.

Cash and Cash Equivalents

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

Marketable Debt Securities

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

The Company uses the specific identification method as a basis for determining cost and calculating realized gains and losses with respect to marketable debt securities. The gross gains and losses realized related to sales and maturities of marketable debt securities were not material during the fiscal years ended 2019, 2018 and 2017.

Fair Value of Financial Instruments

Financial instruments consist of marketable debt securities, accounts receivable and certain current liabilities. These assets (excluding marketable securities which are recorded at fair value) and liabilities are carried at cost, which approximates fair value.

Inventory

Inventories are stated at standard cost adjusted to approximate the lower of cost (first-in, first-out method) or net realizable value. The Company adjusts inventory carrying value for estimated obsolescence equal to the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future demand and market conditions. The Company fully reserves for inventories and non-cancellable purchase orders for inventory deemed obsolete. The Company performs periodic reviews of inventory items to identify excess inventories on hand by comparing on-hand balances to anticipated usage using recent historical activity as well as anticipated or forecasted demand. If estimates of customer demand diminish further or market conditions become less favorable than those projected by the Company, additional inventory adjustments may be required.

We regularly review inventory quantities on-hand and we write down inventory based on excess or obsolete inventories determined primarily by future anticipated demand for our products. Inventory write-downs are measured as the difference between the cost of the inventory and net realizable value, based upon assumptions about future demand, which are inherently difficult to assess and dependent on market conditions. At the point of a loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established basis.

Inventory consists of the following at December 28, 2019 and December 29, 2018:

	2019		2018
Raw materials	\$ 2,630,156	\$	2,548,139
Work-in-process	711,475		1,526,552
Finished goods	427,065		722,547
	\$ 3,768,696	\$	4,797,238

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, generally 3 to 10 years. Leasehold improvements and leased equipment are amortized over the shorter of the term of the lease or the useful life of the improvement or equipment. As discussed below,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

obligations for asset retirement are accrued at the time property, plant and equipment is initially purchased or as such obligations are generated from use.

Recognition and Measurement of Financial Assets and Liabilities

We periodically make equity investments in private companies, accounted for as an equity investment, whose values are difficult to determine. The Company uses the measurement alternative for equity investments without readily determinable fair values which is often referred to as cost method investments. When assessing investments in private companies for impairment, we consider such factors as, among other things, the share price from the investee's latest financing round, the performance of the investee in relation to its own operating targets and its business plan, the investee's revenue and cost trends, the liquidity and cash position, including its cash burn rate and market acceptance of the investee's products and services. Because these are private companies which we do not control we may not be able to obtain all of the information we would want in order to make a complete assessment of the investment on a timely basis. Accordingly, our estimates may be revised if other information becomes available at a later date.

Product Warranty

The Company generally sells products with a limited warranty of product quality and a limited indemnification of customers against intellectual property infringement claims related to the Company's products. The Company accrues for known warranty and indemnification issues if a loss is probable and can be reasonably estimated and accrues for estimated incurred but unidentified issues based on historical activity. Accrued warranty costs and warranty claims are not material in the periods presented.

Extended Warranties

The Company recognizes revenue from an extended warranty on the straight-line method over the life of the extended warranty, which is typically 12 to 18 months beyond the standard 12 month warranty. The Company classifies the current portion of extended warranties under contract liabilities and billings in excess of revenue earned and the noncurrent portion of extended warranties under contract liabilities, noncurrent in its consolidated balance sheets. The Company currently has approximately \$39 thousand of contract liabilities related to extended warranties at December 28, 2019.

Asset Retirement Obligations

The Company recorded asset retirement obligations ("ARO") liabilities of \$0.3 million at December 28, 2019 and December 29, 2018. This represents the legal obligations associated with retirement of the Company's assets when the timing and/or method of settling the obligation are conditional on a future event that may or may not be within the control of the Company. Changes in ARO liabilities for fiscal years 2019 and 2018 are as follows:

	2019	2018
Beginning balance	\$ 254,098	\$ 269,877
Exchange rate change	7,785	(15,779)
Ending balance	\$ 261,883	\$ 254,098

Income Taxes

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

Foreign Currency

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

Net Loss Per Share

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

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

	2019	2018	2017
Nonvested restricted common stock	1,863,124	2,213,249	2,629,274

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk other than marketable securities consist principally of trade accounts receivable. Trade receivables are primarily derived from sales to manufacturers of consumer electronic devices and wireless components or military applications. The Company sells its products to customers worldwide and generally does not require collateral. The Company maintains a reserve for potential credit losses.

The Company primarily invests its excess cash in government backed and corporate debt securities that management believes to be of high credit worthiness, which bear lower levels of relative credit risk. The Company relies on rating agencies to ascertain the credit worthiness of its marketable securities and, where applicable, guarantees made by the Federal Deposit Insurance Company.

Other-than-Temporary Impairments

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

The Company further estimates the amount of OTTI resulting from a decline in the creditworthiness of the issuer (credit-related OTTI) and the amount of non credit-related OTTI. Non credit-related OTTI can be caused by such factors as market illiquidity. Credit-related OTTI is recognized in earnings while non credit-related OTTI on securities not expected to be sold is recognized in other comprehensive income (loss). The Company did not record any OTTI for the fiscal years 2019, 2018 and 2017.

Stock-Based Compensation

The fair value of nonvested restricted common stock awards is generally the quoted price of the Company's equity shares on the date of grant. The nonvested restricted common stock awards require the employee to fulfill certain obligations, including remaining employed by the Company for one, two or four years (the vesting period) and in certain cases also require meeting either performance criteria or market condition. The performance criteria primarily consist of the achievement of established milestones. For nonvested restricted common stock awards which solely require the recipient to remain employed with the Company, the stock compensation expense is amortized over the anticipated service period. For nonvested restricted common stock awards which require the achievement of performance criteria, the Company reviews the probability of achieving the performance goals on a periodic basis. If the Company determines that it is probable that the performance criteria will be achieved, the amount of compensation cost derived for the performance goal is amortized over the service period. If the performance criteria are not met, no compensation cost is recognized, and any previously recognized compensation cost is reversed. The Company recognizes compensation costs on a straight-line basis over the requisite service period for time vested awards.

The value of restricted stock grants that vest based on market conditions is computed on the date of grant using the Monte Carlo model. The fair value of stock option awards is estimated on the date of grant using the Black-Scholes-Merton option-pricing model. There were no stock options granted in fiscal years 2019, 2018 or 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Comprehensive Loss

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

The components of accumulated other comprehensive income are as follows:

	Cumulative Translation Adjustment	Unrealized holding (loss) gain on marketable securities	Reclassifications of gain (loss) of marketable securities in net loss	Accumulated Other Comprehensive Income
Balance as of December 31, 2016	\$ 1,380,042	\$ 239,213	\$ (48,284)	\$ 1,570,971
Changes during year	1,851,664	148,520	(6,376)	1,993,808
Balance as of December 30, 2017	3,231,706	387,733	(54,660)	3,564,779
Changes during year	(1,794,768)	(264,949)	49,525	(2,010,192)
Balance as of December 29, 2018	1,436,938	122,784	(5,135)	1,554,587
Changes during year	(206,580)	446,533	(37,356)	202,597
Balance as of December 28, 2019	\$ 1,230,358	\$ 569,317	\$ (42,491)	\$ 1,757,184

Goodwill

We account for goodwill in accordance with ASC Topic 350. Under ASC Topic 350, goodwill is considered to have an indefinite life, and is carried at cost. Goodwill is not amortized, but is subject to an annual impairment test, as well as between annual tests when events or circumstances indicate that the carrying value may not be recoverable.

The Company performs impairment tests of goodwill at its reporting unit level. The goodwill valuations that are utilized to test these assets for impairment are depending on a number of significant estimates and assumptions, including macroeconomic conditions, overall growth rates, competitive activities, cost containment, Company business plans and the discount rate applied to cash flows. We believe these estimates and assumptions are reasonable and are comparable to those that would be used by other market participants. However, actual events and results could differ substantially from those used in our valuations. As of December 28, 2019, the ending balance of goodwill was zero.

Impairment of Long-Lived Assets

The Company periodically reviews the carrying value of its 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.

Leases

Effective December 30, 2018 (the first day of fiscal year 2019), the Company adopted the requirements of the new lease standard Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)* using the modified retrospective approach, applying the new lease requirements at the beginning of fiscal year 2019. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allows us to carry forward the historical lease classification. The Company did not elect the practical expedient to use hindsight in determining the lease term and in assessing impairment of right-of-use assets. The standard resulted in the recognition of operating lease right-of-use assets of \$3.7 million and operating lease liabilities of \$3.8 million, of which \$1.0 million was classified as current at the beginning of fiscal year 2019. The standard had no material impact on the Company's results of operations or cash flows and there was no cumulative impact on accumulated deficit as of December 30, 2018. In addition, new disclosures are provided to enable readers to assess the amount, timing and uncertainty of cash flows arising from leases.

The Company determines if an arrangement is a lease or contains an embedded lease at inception. For lease arrangements with both lease and non-lease components (e.g., common-area maintenance costs), the Company accounts for the non-lease components separately.

All of the Company's leases are operating leases. Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of future lease payments over the lease term at the commencement date. The operating lease right-of-use assets also includes any initial direct costs and any lease payments made at or before the commencement date and is reduced for any unrestricted incentives received at or before the commencement date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the majority of the Company's leases, the discount rate used to determine the present value of the lease payments is the Company's incremental borrowing rate at the lease commencement date, as the implicit rate is not readily determinable. The discount rate represents a risk-adjusted rate on a secured basis and is the rate at which the Company would borrow funds to satisfy the scheduled lease liability payment streams commensurate with the lease term. On December 30, 2018, the discount rate used on existing leases at adoption was determined based on the remaining lease term using available data as of that date. For new or renewed leases starting in 2019, the discount rate is determined using available data at lease commencement and based on the lease term including any reasonably certain renewal periods.

Some of our leases include options to extend or terminate the lease. The Company includes these options in the recognition of the Company's ROU assets and lease liabilities when it is reasonably certain that the Company will exercise the option. In most cases, the Company has concluded that renewal and early termination options are not reasonably certain of being exercised by the Company (and thus not included in our ROU asset and lease liability) unless there is an economic, financial or business reason to do so. None of our leases include variable lease-related payments, such as escalation clauses based on the consumer price index ("CPI") rates or residual guarantees.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"), which adds, amends and removes certain disclosure requirements related to fair value measurements. Among other changes, this standard requires certain additional disclosure surrounding Level 3 assets, including changes in unrealized gains or losses in other comprehensive income and certain inputs in those measurements. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amended or eliminated disclosures in this standard may be adopted early, while certain additional disclosure requirements in this standard can be adopted on its effective date. In addition, certain changes in the standard require retrospective adoption, while other changes must be adopted prospectively. The Company believes the standard will not have a material impact on our financial position, results of operations or liquidity.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which requires measurement and recognition of expected credit losses for financial assets held. In November 2019, the FASB issued ASU 2019-10 that has extended the effective date of ASU 2016-13 for Smaller Reporting Entities to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The Company is currently evaluating ASU 2016-13 and its impact on our consolidated financial statements.

2. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 28, 2019 and December 29, 2018:

	Useful Life	2019	2018
Equipment	3-5 years	\$ 16,344,040	\$ 16,824,384
Leasehold improvements	Life of the lease	3,577,809	3,676,775
Furniture and fixtures	3 years	101,777	523,736
Equipment under construction		—	436,806
		20,023,626	21,461,701
Accumulated depreciation and amortization		(18,550,285)	(18,862,859)
Property, plant and equipment, net		\$ 1,473,341	\$ 2,598,842

Depreciation expense for the fiscal years 2019, 2018 and 2017 was approximately \$0.8 million, \$1.0 million and \$0.9 million, respectively.

During the fiscal year 2018, the Company recorded asset impairment charges of \$2.5 million associated with equipment that either is not currently being utilized or will not be utilized for its remaining useful life and is not recoverable.

3. Leases

The Company enters into operating leases primarily for manufacturing, engineering, research, administration and sales facilities, and information technology ("IT") equipment. At December 28, 2019 and December 29, 2018, the Company did not

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

have any finance leases. Almost all of our future lease commitments, and related lease liability, relate to the Company's facility leases. Some of the Company's leases include options to extend or terminate the lease.

	2019	
Operating lease cost	\$	1,372,245

At December 28, 2019, the Company's future lease payments under non-cancellable leases were as follows:

2020	1,193,762
2021	1,055,188
2022	655,652
2023	201,333
Thereafter	—
Total future lease payments	3,105,935
Less imputed interest	(272,650)
Total	2,833,285

Supplemental cash flow information related to leases was as follows:

	2019	
Cash paid for amounts included in the measurement of operating lease liabilities	\$	1,146,090

Other information related to leases was as follows:

	2019
Weighted Average Discount Rate—Operating Leases	6.14%
Weighted Average Remaining Lease Term—Operating Leases (in years)	2.87

Supplemental Information for Comparative Periods

Prior to December 30, 2018, the Company accounted for its leases in accordance with Topic 840, *Leases*. The Company leases various facilities.

Amounts incurred under operating leases are recorded as rent expense on a straight-line basis. Total rent expense in the fiscal years ended 2018 and 2017 were approximately \$1.4 million and \$1.5 million, respectively.

4. Contract Assets and Liabilities

Net contract assets (liabilities) consisted of the following:

	December 28, 2019		December 29, 2018		\$ Change	% Change
Contract assets and unbilled receivables	\$	921,082	\$	3,089,663	\$ (2,168,581)	(70)%
Contract liabilities and billings in excess of revenue earned		(796,794)		(388,933)	(407,861)	105 %
Contract liabilities, noncurrent		(6,557)		(17,294)	10,737	(62)%
Net contract assets	\$	117,731	\$	2,683,436	\$ (2,565,705)	(96)%

The \$2.6 million decrease in the Company's net contract assets from December 29, 2018 to December 28, 2019 was primarily due to change in our fixed-price contracts with the U.S. government that resulted in revenue recognized in excess of amounts billed and product revenue recognized over time for military programs.

The Company recognized revenue of approximately \$0.8 million and \$0.4 million related to our contract liabilities at December 28, 2019 and December 29, 2018, respectively.

The Company did not recognize impairment losses on our contract assets during the years ended December 28, 2019 and December 29, 2018.

5. Business Combinations

In March 2017, we purchased 100% of the outstanding stock of NVIS, Inc. ("NVIS"), a producer of virtual reality systems for 3D applications, for \$3.7 million. In addition to the \$3.7 million the former selling shareholders of NVIS could earn an additional \$2.0 million for meeting certain operating performance milestones through March of 2020. As of December 28, 2019, we estimate that the former owners have earned approximately \$1.8 million of the \$2.0 million. In 2019, the Company made payments of \$1.3 million to the former selling shareholders of NVIS for meeting certain operating performance milestones and the Company may be required to pay an additional \$0.7 million if additional milestones are met and the selling shareholders remain employed with NVIS through March 2020. As there is a requirement to remain employed to earn the contingent payments, these contingent payments are being treated as compensation expense.

The identifiable assets acquired and liabilities assumed at the acquisition date have been recognized at fair value. The allocation of the purchase price as of the acquisition date is as follows:

Cash and marketable securities	\$	2,600
Accounts receivable		490,700
Inventory		768,400
Other identifiable assets		46,800
Order backlog		840,000
Customer relationships		1,000,000
Developed technology		460,000
Trademark portfolio		160,000
Current liabilities		(480,500)
Net deferred tax liabilities		(1,084,000)
Goodwill		1,489,000
Total	\$	3,693,000

Goodwill represents the recording of the excess of the purchase price over the fair values of the net tangible assets acquired. No significant adjustments were recorded to the purchase price allocation during the measurement period. During the fourth quarter of 2017, we finalized the fair values of the acquired assets and liabilities.

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

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

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

The following unaudited supplemental pro forma disclosures are provided for the fiscal year ended December 30, 2017. All intercompany transactions have been eliminated.

Fiscal year ended		2017
Revenues	\$	28,477,870
Net loss		(26,302,840)
Basic and diluted earnings per share	\$	(0.38)

6. Goodwill and Intangibles

A rollforward of the Company's goodwill is as follows:

	Total
Balance, December 30, 2017	\$ 1,780,247
Impairment of goodwill	(1,417,470)
Change due to exchange rate fluctuations	(31,433)
Balance, December 29, 2018	331,344
Impairment of goodwill	(331,344)
Balance, December 28, 2019	\$ —

In 2019, the Company performed a qualitative impairment analysis of goodwill for e-MDT operating unit and determined that the discounted cash flows were not in excess of the carrying value. As a result of the analysis, the Company recorded impairment of goodwill of \$0.3 million for the year ended December 28, 2019. At December 29, 2018, the Company performed an impairment analysis of goodwill based on a comparison of the discounted cash flows to the recorded carrying value of the reporting units, and determined that the discounted cash flows were not in excess of the carrying value of the NVIS reporting unit. At December 29, 2018, the Company decided to discontinue operations at its wholly-owned subsidiary, Kopin Software Ltd. and expects no future cash flows to support the carrying amount of goodwill. As a result, the Company recorded an impairment of goodwill of \$1.4 million for the year ended December 29, 2018. The input methods for goodwill are analyzed for impairment on a nonrecurring basis using fair value measurements with unobservable inputs, which is Level 3 in the fair value hierarchy.

The Company recognized \$0.9 million and \$1.6 million in amortization expense for the fiscal years ended 2018 and 2017, respectively, related to intangible assets. The Company did not recognize any amortization expense in 2019. At December 28, 2019, the Company has a carrying value of \$2.5 million and accumulated amortization of \$2.5 million related to intangibles. The intangibles have no remaining useful life.

7. Financial Instruments

Fair Value Measurements

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

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

	Total	Fair Value Measurement at December 28, 2019 Using:		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 6,029,247	\$ 6,029,247	\$ —	\$ —
U.S. government and agency backed securities	8,296,870	—	8,296,870	—
Corporate debt	7,456,127	—	7,456,127	—
Equity Investments	4,537,159	386,711	—	4,150,448
	\$ 26,319,403	\$ 6,415,958	\$ 15,752,997	\$ 4,150,448

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Total	Fair Value Measurement at December 29, 2018 Using:		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 14,326,347	\$ 14,326,347	\$ —	\$ —
U.S. government and agency backed securities	12,810,923	—	12,810,923	—
Corporate debt	10,107,093	—	10,107,093	—
Equity Investments	5,853,525	288,026	—	5,565,499
	\$ 43,097,888	\$ 14,614,373	\$ 22,918,016	\$ 5,565,499

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of their short-term nature. If accrued liabilities were carried at fair value, these would be classified as Level 2 in the fair value hierarchy.

Changes in Level 3 investments are as follows:

	December 29, 2018	Net unrealized gains/(losses)	Purchases, issuances and settlements	Transfers in and out of Level 3	December 28, 2019
Equity Investments	\$ 5,565,499	\$ (3,915,051)	\$ 2,500,000	\$ —	\$ 4,150,448

Equity Investments

Equity investments rarely traded or not quoted will generally have less (or no) pricing observability and a higher degree of judgment utilized in measuring fair value. Initial measurement of equity investments occurs when an observable price for the equity investment is available. The Company adopted the measurement alternative for equity investments without readily determinable fair values (often referred to as cost method investments) on a prospective basis. As a result, these investments will be revalued upon occurrence of an observable price change for similar investments and for impairments.

The Company acquired an equity interest in a company in the first quarter of 2018. The Company made a \$1.0 million capital contribution during the three months ended March 31, 2018. The Company also contributed certain intellectual property. For the years ended December 28, 2019 and December 29, 2018, the Company recorded less than \$0.1 million and \$0.3 million of unrealized loss on this equity investment respectively due to a fluctuation in the foreign exchange rate. As of December 28, 2019, the Company owned an 11% interest in this investment and the fair value of this equity investment was \$3.6 million at December 28, 2019.

In 2017 the Company had a warrant to acquire up to 15% of the next round of equity offered by a customer as part of the licensing of technology to the customer. The Company used the pricing and terms of the qualified financing round by the customer in determining the value of its Series A warrant and recorded a gain of \$2.0 million. The Company acquired an equity interest in the customer by exercising the Series A warrant into Series A shares in the second quarter of 2018 and recorded a loss of less than \$0.1 million. In addition, the Company acquired shares of the customer's Series B shares valued at \$2.5 million based on the fair value of the Series B at the closing in May 2019. During the second quarter of 2019, the Company recognized a \$0.8 million gain based on an observable price change for the Series A shares by using the customer's Series B capital structure, pricing of the shares being offered and the liquidation preference of Series B. In the fourth quarter of 2019 Kopin reviewed the financial condition and other factors of the customer and as a result, in the fourth quarter of 2019, we recorded an impairment charge of \$5.2 million to reduce our investment in the customer to zero as of December 28, 2019.

On September 30, 2019 the Company entered into an Asset Purchase Agreement (the "Solos Purchase Agreement") pursuant to which the Company sold and licensed certain assets of our Solos™ ("Solos") product line and Whisper™ Audio ("Whisper") technology. As consideration for the transaction the Company received a 20.0% equity stake in Solos Incorporation ("Solos Inc."). The Company's 20.0% equity stake will be maintained until Solos Inc. has raised a total of \$7.5 million in equity financing. The Company will also receive a royalty in the single digits on the net sales amount of Solos products for a three-year period, after commencement of commercial production. The Company has performed the analysis and identified Solos Technology as a variable interest entity that should not be consolidated by Kopin as Kopin is not the primary beneficiary of the entity. Kopin is not obligated to provide any additional funding support to Solos Inc., and our potential loss exposure is the value of the investment recorded on our books. Based on the price paid for equity by the other 80.0% owners of Solos Inc., volatility based on a peer group and assumptions about the risk free interest rate, the Company estimated the fair value of its' equity holdings at \$0.6 million and recorded \$0.6 million gain on investment for this equity transaction as the basis of assets transferred was zero.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Marketable Debt Securities

The corporate debt consists of floating rate notes with a maturity that is over multiple years but has interest rates that are reset every three months based on the then-current three-month London Interbank Offering Rate ("three-month Libor"). The Company validates the fair market values of the financial instruments above by using discounted cash flow models, obtaining independent pricing of the securities or through the use of a model that incorporates the three-month Libor, the credit default swap rate of the issuer and the bid and ask price spread of the same or similar investments which are traded on several markets. Investments in available-for-sale marketable debt securities are as follows at December 28, 2019 and December 29, 2018:

	Amortized Cost		Unrealized Losses		Fair Value	
	2019	2018	2019	2018	2019	2018
U.S. government and agency backed securities	\$ 8,304,229	\$ 13,064,418	\$ (7,359)	\$ (253,495)	\$ 8,296,870	\$ 12,810,923
Corporate debt	7,459,298	10,175,084	(3,171)	(67,991)	7,456,127	10,107,093
Total	\$ 15,763,527	\$ 23,239,502	\$ (10,530)	\$ (321,486)	\$ 15,752,997	\$ 22,918,016

The contractual maturity of the Company's marketable debt securities is as follows at December 28, 2019:

	Less than One year	One to Five years	Total
U.S. government and agency backed securities	\$ 299,250	\$ 7,997,620	\$ 8,296,870
Corporate debt	3,346,615	4,109,512	7,456,127
Total	\$ 3,645,865	\$ 12,107,132	\$ 15,752,997

8. Stockholders' Equity and Stock-Based Compensation

Registered Sale of Equity Securities

On March 15, 2019, the Company sold 7.3 million shares of registered common stock for gross proceeds of \$8.0 million (\$1.10 per share), before deducting underwriting discounts and offering expenses paid by the Company of \$0.7 million. This represented approximately 8.9% of Kopin's total outstanding shares of common stock as of the date of purchase. The net proceeds from the offering were used for general corporate purposes, including working capital. On April 10, 2019, the Company sold 0.7 million shares of registered common stock for gross proceeds of \$0.8 million (\$1.10 per share), before deducting underwriting discounts and offering expenses paid by the Company of less than \$0.1 million, pursuant to the partial exercise of the underwriters' overallotment option in connection with its March 15, 2019 public offering. This represented approximately 0.8% of Kopin's total outstanding shares of common stock as of the date of purchase.

Sale of Unregistered Common Stock

On April 20, 2017, the Company sold 7,589,000 shares of unregistered common stock to Goertek, Inc. for \$24,664,250 (\$3.25 per share). This represented approximately 10.1% of Kopin's total outstanding shares of common stock as of the date of purchase. The transaction was accounted for under ASC 505-30 "Treasury Stock," and the loss on the sale of the treasury stock of approximately \$0.8 million was charged to retained earnings. See Note 17. Related Party Transactions for additional discussion around agreements with Goertek.

Restricted Stock Awards

In 2010, the Company adopted a 2010 Equity Incentive Plan ("2010 Equity Plan") which authorized the issuance of shares of common stock to employees, non-employees, and the Board. The 2010 Equity Plan was a successor to the Company's 2001 Equity Incentive Plan ("2001 Equity Plan") and has been subsequently amended to increase the number of authorized shares to 14,100,000 as of December 28, 2019. The number of shares authorized under the 2010 Equity Plan is the number of shares approved by the shareholders plus the number of shares of common stock which were available for grant under the 2001 Equity Plan, the number of shares of common stock which were the subject of awards outstanding under the 2001 Equity Plan and are forfeited, terminated, canceled or expire after the adoption of the 2010 Equity Plan and the number of shares of common stock delivered to the Company either in exercise of a 2001 Equity Plan award or in satisfaction of a tax withholding obligation. The term and vesting period for restricted stock awards granted under the 2010 Equity Plan are determined by the Board's compensation committee. As of December 28, 2019, the Company has approximately 1.4 million shares of common stock authorized and available for issuance under the Company's 2010 Equity Plan of which 0.5 million shares are committed to be issued for 2020 incentive program.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	Shares	Weighted Average Grant Fair Value
Outstanding at December 31, 2016	3,007,674	\$ 3.21
Granted	1,152,000	3.40
Forfeited	(465,150)	3.82
Vested	(1,065,250)	2.90
Outstanding at December 30, 2017	2,629,274	3.31
Granted	1,549,000	2.25
Forfeited	(872,025)	3.78
Vested	(1,093,000)	3.05
Balance at December 29, 2018	2,213,249	2.51
Granted	645,000	0.57
Forfeited	(355,625)	2.95
Vested	(639,500)	2.98
Balance at December 28, 2019	1,863,124	\$ 1.60

On December 31, 2017 (fiscal year beginning 2018), the Company amended the employment agreement with our CEO Dr. John Fan to expire on December 31, 2020 and as part of the amendment issued restricted stock grants. 640,000 shares of restricted stock which will vest upon the first 20 consecutive trading day period following the grant date during which the Company's common stock trades at a price equal to or greater than \$5.25, 150,000 shares of restricted stock will vest at the end of the first 20 consecutive trading day period following the grant date during which the Company's common stock trades at a price per share equal to or greater than \$6.00, and 150,000 shares of restricted common stock will vest at the end of the first 20 consecutive trading day period following the grant date during which the Company's common stock trades at a price per share equal to or greater than \$7.00. All of the grants are subject to certain acceleration events and terminate on December 31, 2020. The following table describes inputs used to calculate fair value of the restricted stock grants:

	For the period ended December 29, 2018		
Performance price target	\$ 5.25	\$ 6.00	\$ 7.00
Expected volatility	48.3%	48.3%	48.3%
Interest rate	1.97%	1.97%	1.97%
Expected life (years)	2	2	2
Dividend yield	—%	—%	—%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Stock-Based Compensation

The following table summarizes stock-based compensation expense within each of the categories below as it relates to non-vested restricted common stock awards for the fiscal years 2019, 2018 and 2017 (no tax benefits were recognized):

	2019	2018	2017
Cost of product revenues	\$ 102,629	\$ 418,605	\$ 490,481
Research and development	295,872	725,112	799,485
Selling, general and administrative	1,658,899	3,647,337	1,006,165
Total	\$ 2,057,400	\$ 4,791,054	\$ 2,296,131

Unrecognized compensation expense for non-vested restricted common stock as of December 28, 2019 totaled \$0.9 million and is expected to be recognized over a weighted average period of approximately two years.

9. Concentrations of Risk

Ongoing credit evaluations of customers' financial condition are performed and collateral, such as letters of credit, are generally not required. Customer's accounts receivable balance as a percentage of total accounts receivable was as follows:

Customer	Percent of Gross Accounts Receivable	
	December 28, 2019	December 29, 2018
Collins Aerospace	23%	11%
DRS Network & Imaging Systems, LLC	22%	11%
Scott Safety	12%	*
RealWear, Inc.	10%	31%

Note: The symbol "*" indicates that accounts receivables from that customer were less than 10% of the Company's total accounts receivable.

Sales to significant non-affiliated customers for fiscal years 2019, 2018 and 2017, as a percentage of total revenues, is as follows:

Customer	Sales as a Percent of Total Revenue		
	Fiscal Year		
	2019	2018	2017
Military Customers in Total	30%	36%	48%
Collins Aerospace	*	20%	10%
DRS Network & Imaging Systems, LLC	17%	*	10%
General Dynamics	*	11%	*
RealWear, Inc.	20%	*	*
U.S. Army	*	*	12%
Funded Research and Development Contracts	17%	20%	11%

Note: The symbol "*" indicates that sales to that customer were less than 10% of the Company's total revenues. The caption "Military Customers in Total" excludes research and development contracts.

10. Income Taxes

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Fiscal Year		
	2019	2018	2017
Current			
State	\$ 4,000	\$ 5,000	\$ 5,000
Foreign	104,000	25,000	(568,000)
Total current provision (benefit)	108,000	30,000	(563,000)
Deferred			
Federal	(5,165,000)	(7,307,000)	15,461,000
State	(2,341,000)	(360,000)	(493,000)
Foreign	(56,000)	300,000	(187,000)
Change in valuation allowance	7,562,000	7,367,000	(17,181,000)
Total (benefit) deferred provision	—	—	(2,400,000)
Total provision (benefit) for income taxes	\$ 108,000	\$ 30,000	\$ (2,963,000)

The following table sets forth the changes in the Company's balance of unrecognized tax benefits for the year ended:

	Total
Unrecognized tax benefits at December 30, 2017	\$ 394,000
Gross increases—prior year tax positions	—
Unrecognized tax benefits at December 29, 2018	394,000
Gross increases—current year tax positions	—
Unrecognized tax benefits at December 28, 2019	\$ 394,000

U.S. GAAP requires applying a 'more likely than not' threshold to the recognition and derecognition of uncertain tax positions either taken or expected to be taken by the Company's income tax returns. The total amount of our gross tax liability for tax positions that may not be sustained under a 'more likely than not' threshold amounts to \$0.4 million as of December 28, 2019 and December 29, 2018. The Company's policy regarding the classification of interest and penalties is to include these amounts as a component of income tax expense. The total amount of accrued interest and penalties related to the Company's unrecognized tax benefits was \$0.8 million and \$0.5 million as of December 28, 2019 and December 29, 2018 respectively.

Net operating losses were not utilized in 2019, 2018 and 2017 to offset federal and state taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	Fiscal Year		
	2019	2018	2017
Tax provision at federal statutory rates	\$ (6,196,000)	\$ (7,515,000)	\$ (9,884,000)
State tax liability	4,000	5,000	5,000
Foreign deferred tax rate differential	(64,000)	(39,000)	15,000
Foreign withholding	—	301,000	(771,000)
Outside basis in Kowon, net unremitted earnings	—	(468,000)	(2,888,000)
Permanent items	1,964,000	186,000	774,000
Increase in net state operating loss carryforwards	(1,985,000)	(406,000)	(300,000)
Utilization of net operating losses for U.K. research and development refund	(148,000)	—	—
Provision to tax return adjustments and tax rate change ⁽¹⁾	803,000	(76,000)	24,833,000
Tax credits	(1,931,000)	239,000	24,000
Non-deductible 162M compensation limitations	—	13,000	199,000
Non-deductible equity compensation	16,000	290,000	1,901,000
Uncertain tax position for transfer pricing	105,000	91,000	203,000
Other, net	(22,000)	45,000	107,000
Change in valuation allowance	7,562,000	7,364,000	(17,181,000)
Total provision (benefit)	\$ 108,000	\$ 30,000	\$ (2,963,000)

(1) Due to the Tax Act which was enacted in December 2017, our U.S. deferred tax assets and liabilities as of December 30, 2017 were re-measured to 21%. The provisional amount recorded related to the remeasurement of our deferred tax balance was approximately \$25.1 million of tax expense.

Pretax foreign income from continuing operations was approximately \$1.3 million for fiscal year ended 2019, pretax foreign loss from continuing operations was approximately \$0.7 million for fiscal year ended 2018 and pretax foreign income from continuing operations was approximately \$0.4 million for fiscal year ended 2017. Deferred income taxes are provided to recognize the effect of temporary differences between tax and financial reporting. Deferred income tax assets and liabilities consist of the following:

	Fiscal Year	
	2019	2018
Deferred tax liability:		
Foreign withholding liability	\$ (525,000)	\$ (538,000)
Deferred tax assets:		
Federal net operating loss carryforwards	44,820,000	41,755,000
State net operating loss carryforwards	5,097,000	3,114,000
Foreign net operating loss carryforwards	1,293,000	1,259,000
Equity awards	428,000	444,000
Tax credits	9,161,000	7,231,000
Property, plant and equipment	524,000	640,000
Unrealized losses on investments	2,641,000	1,848,000
Other	1,603,000	1,707,000
Net deferred tax assets	65,042,000	57,460,000
Valuation allowance	(65,566,000)	(58,006,000)
	\$ (524,000)	\$ (546,000)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The valuation allowance was approximately \$65.6 million and \$58.0 million at December 28, 2019 and December 29, 2018, respectively, primarily driven by U.S. net operating loss carryforwards ("NOLs") and tax credits that the Company does not believe will ultimately be realized.

Deferred tax assets and liabilities—The Company has remeasured certain deferred tax assets and liabilities, excluding those items included on the Company's 2017 tax return, based on the rates the Company expects to realize the deferred tax assets and liabilities at in the future, which is generally 21%. The amount recorded related to the remeasurement of the Company's deferred tax balance was approximately \$25.1 million of tax expense.

The Company recorded a reduction in the valuation allowance during 2017 of approximately \$1.0 million which was previously recorded against the Company's AMT credit. The Company has received \$0.5 million refund from our AMT credit in 2019 and is expecting to receive another \$0.5 million of this credit in the next three years. The current portion of receivable is \$0.3 million and is recorded in "Prepaid expenses and other current assets" on the Company's consolidated balance sheet at December 28, 2019 and the non-current portion is recorded in "Other assets".

In addition to the changes described above, the 2017 Act imposes a U.S. tax on global intangible low taxed income ("GILTI") that is earned by certain foreign affiliates owned by a U.S. shareholder. The computation of GILTI is generally intended to impose tax on the earnings of a foreign corporation that are deemed to exceed a certain threshold return relative to the underlying business investment. The Company has made a policy election to treat future taxes related to GILTI as a current period expense in the reporting period in which the tax is incurred.

As of December 28, 2019, the Company has available for tax purposes NOLs of \$160.5 million expiring 2021 through 2037 and \$52.9 million that have an unlimited carryover period. The Company has recognized a full valuation allowance on its net deferred tax assets as the Company has concluded that such assets are not more likely than not to be realized. The decrease in valuation allowance during fiscal year 2017 was a result of decreases in the federal tax rate as part of the Tax Act and a reduction in the valuation allowance as a result of deferred tax liabilities assumed as part of the acquisition of NVIS.

The Tax Act imposes a mandatory transition tax on accumulated foreign earnings and eliminates U.S. taxes on foreign subsidiary distribution. As a result, earnings in foreign jurisdictions are available for distribution to the U.S. without incremental U.S. taxes.

Under the provisions of Section 382, certain substantial changes in Kopin's ownership may limit in the future the amount of net operating loss carryforwards that could be used annually to offset future taxable income and income tax liability.

The Company's income tax returns have not been examined by the Internal Revenue Service and are subject to examination for all years since 2001. State income tax returns are generally subject to examination for a period of three to five years after filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states.

International jurisdictions have statutes of limitations generally ranging from three to twenty years after filing of the respective return. Years still open to examination by tax authorities in major jurisdictions include Korea (2009 onward), Japan (2009 onward), Hong Kong (2011 onward) and United Kingdom (2014 onward). The Company is not currently under examination in these jurisdictions.

11. Accrued Warranty

The Company warrants its products against defect for 12 months, however, for certain products a customer may purchase an extended warranty. A provision for estimated future costs and estimated returns for credit relating to such warranty is recorded in the period when product is shipped and revenue recognized, and is updated as additional information becomes available. The Company's estimate of future costs to satisfy warranty obligations is based primarily on historical warranty expense experienced and a provision for potential future product failures. Changes in the accrued warranty for fiscal years ended 2019, 2018 and 2017 are as follows:

	Fiscal Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Beginning balance	\$ 571,000	\$ 649,000	\$ 518,000
Additions	471,000	159,000	328,000
Claim and reversals	(533,000)	(237,000)	(197,000)
Ending Balance	\$ 509,000	\$ 571,000	\$ 649,000

12. Employee Benefit Plan

The Company has an employee benefit plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. In 2019, the plan allowed employees to defer an amount of their annual compensation up to a current maximum of \$19,000 if they are under the age of 50 and \$25,000 if they are over the age of 50. The Company matches 50% of all deferred compensation on the first 6% of each employee's deferred compensation. The amount charged to operations in connection with this plan was approximately \$0.3 million in fiscal years 2019, 2018 and 2017.

13. Commitments

The Company entered into an agreement in August 2017 to acquire an approximate 3.5% equity interest in Kunming BOE Display Technology Co., Ltd. ("BOE"), which is located in China, for 35.0 million Chinese Yuan Renminbi (approximately \$5.0 million). The Company's sole obligation under this agreement is to make this capital contribution. The funds raised by the BOE equity offering are being used to build an Organic Light Emitting Diode ("OLED") manufacturing facility which the Company intends to use to manufacture its products. The Company was unable to make its scheduled capital contribution and has received an extension from BOE postponing its capital contribution until July 2022.

14. Litigation

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

BlueRadios, Inc. v. Kopin Corporation, Civil Action No. 16-02052-JLK (D. Col.):

On August 12, 2016, BlueRadios, Inc. ("BlueRadios") filed a complaint in the U.S. District Court for the District of Colorado, alleging that the Company breached a contract between it and BlueRadios concerning an alleged joint venture between the Company and BlueRadios to design, develop and commercialize micro-display products with embedded wireless technology referred to as "Golden-i" breached the covenant of good faith and fair dealing associated with that contract, breached its fiduciary duty to BlueRadios, and misappropriated trade secrets owned by BlueRadios in violation of Colorado law (C.R.S. § 7-74-104(4)) and the Defend Trade Secrets Act (18 U.S.C. § 1836(b)(1)). BlueRadios further alleges that the Company was unjustly enriched by its alleged misconduct, BlueRadios is entitled to an accounting to determine the amount of profits obtained by the Company as a result of its alleged misconduct, and the inventorship on at least ten patents or patent applications owned by the Company need to be corrected to list BlueRadios' employees as inventors and thereby list BlueRadios as co-assignees of the patents. BlueRadios seeks monetary, declaratory, and injunctive relief, including for alleged non-payment of engineering retainer fees.

On October 11, 2016, the Company filed its Answer and Affirmative Defenses. The parties completed expert depositions on November 15, 2019. On December 2, 2019, the Company filed a Motion for Partial Summary Judgment requesting the Court dismiss counts 2-7 in their entirety and counts 1 and 8 in part. BlueRadios also filed a Motion for Partial Summary Judgment alleging it is the co-owner of U.S. Patent No. 8,909,296. Responses to the Motions for Partial Summary Judgment were filed on January 15, 2020, and replies were filed on February 19, 2020. A trial date has not yet been set by the Court. The Company has not concluded a loss from this matter is probable; therefore, we have not recorded an accrual for litigation or claims related to this matter for the period ended December 28, 2019. The Company will continue to evaluate information as it becomes known and will record an estimate for losses at the time or times when it is both probable that a loss has been incurred and the amount of the loss is reasonably estimable.

15. Segments and Disaggregation of Revenue

We continually monitor and review our segment reporting structure in accordance with authoritative guidance to determine if any changes have occurred that would affect our reportable segments. Previously, we have been presenting our financial results broken out into two segments, Kopin and Industrial. In the fourth quarter of 2019, as a result of the changes in our operations in 2019, including the license and sale of the Solos product line and Whisper technology, as well as the discontinuance of lower margin products and changes in our management structure, our operations have become more integrated such that we have one segment, to better align with how management operates and evaluates and views the results of our operations. Our Chief Executive Officer, who is our chief operating decision maker ("CODM"), reviews results on a total company basis. In 2019, we have disposed of our Wearables products, Solos and Golden-i, and have focused on providing display-related products to the military and industrial markets that are designed, developed and manufactured in a collaborative effort by the various operations of the Company. As a result, we have one reportable segment starting in fourth quarter of fiscal 2019, and we have retrospectively adjusted our segment disclosures to present one reportable segment.

Total long-lived assets by country at December 28, 2019 and December 29, 2018 were:

Total Long-lived Assets (in thousands)	2019		2018	
U.S.	\$	1,233	\$	2,101
United Kingdom		177		197
China		37		251
Japan		26		50
Total	\$	1,473	\$	2,599

We disaggregate our revenue from contracts with customers by geographic location and by display application, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

Total revenue by geographical area for the fiscal years ended December 28, 2019, December 29, 2018 and December 30, 2017:

(In thousands, except percentages)	2019		2018		2017	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
U.S.	\$ 14,946	51%	\$ 14,436	59%	16,540	59%
Other Americas	134	—	123	1%	86	—%
Total Americas	15,080	51%	14,559	60%	16,626	60%
Asia-Pacific	11,768	40%	6,916	28%	5,406	19%
Europe	2,628	9%	2,948	12%	5,809	21%
Other	42	—%	42	—%	—	—%
Total Revenues	\$ 29,519	100%	\$ 24,465	100%	27,841	100%

Total revenue by display application for the fiscal years ended December 28, 2019, December 29, 2018 and December 30, 2017 was as follows:

(In thousands)	2019		2018		2017	
Military	\$	8,729	\$	8,724	\$	13,438
Industrial		9,717		6,066		5,478
Consumer		1,777		4,146		4,406
R&D		4,983		5,254		2,947
Other		61		275		1,573
License and royalties		4,252		—		—
Total Revenues	\$	29,519	\$	24,465	\$	27,841

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Selected Quarterly Financial Information (Unaudited)

The following tables present Kopin's quarterly operating results for the fiscal years ended December 28, 2019 and December 29, 2018. The information for each of these quarters is unaudited and has been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the unaudited consolidated quarterly results when read in conjunction with Kopin's audited consolidated financial statements and related notes. These operating results are not necessarily indicative of the results of any future period.

Quarterly Periods During Fiscal Year Ended December 28, 2019:

(in thousands, except per share data)	Three months ended March 30, 2019	Three months ended June 29, 2019 ⁽³⁾	Three months ended September 28, 2019	Three months ended December 28, 2019
Total revenue	\$ 5,543	\$ 9,110	\$ 6,139	\$ 8,727
Gross profit⁽²⁾	(1,263)	(808)	265	1,188
Loss from operations	(11,584)	(4,838)	(6,402)	(3,556)
Net loss attributable to the controlling interest	(11,331)	(4,260)	(6,625)	(7,290)
Net loss per share⁽¹⁾:				
Basic and diluted	\$ (0.15)	\$ (0.05)	\$ (0.08)	\$ (0.09)
Weighted average number of common shares outstanding:				
Basic and diluted	74,969	81,950	82,054	82,155

(1) Net loss per share is computed independently for each of the quarters presented; accordingly, the sum of the quarterly net income per share may not equal the total computed for the year.

(2) Gross profit is defined as net product revenues less cost of product revenues.

(3) Includes \$3.5 million revenue from licensing functional IP for the three month period ended June 29, 2019.

Quarterly Periods During Fiscal Year Ended December 29, 2018:

(in thousands, except per share data)	Three months ended March 31, 2018 ⁽³⁾	Three months ended June 30, 2018	Three months ended September 29, 2018	Three months ended December 29, 2018
Total revenue	\$ 5,654	\$ 5,944	\$ 5,126	\$ 7,741
Gross profit⁽²⁾	983	974	(16)	1,439
Loss from operations	(9,792)	(8,992)	(10,299)	(10,884)
Net loss attributable to the controlling interest	(5,536)	(9,241)	(9,791)	(9,966)
Net loss per share⁽¹⁾:				
Basic and diluted	\$ (0.08)	\$ (0.13)	\$ (0.13)	\$ (0.14)
Weighted average number of common shares outstanding:				
Basic and diluted	73,078	73,095	73,135	73,317

(1) Net loss per share is computed independently for each of the quarters presented; accordingly, the sum of the quarterly net income per share may not equal the total computed for the year.

(2) Gross profit is defined as net product revenues less cost of product revenues.

(3) Includes \$2.9 million impact on net gain attributable to Kopin Corporation relating to the gain on an equity investment for the three month period ended March 31, 2018.

17. Related Party Transactions

The Company may from time to time enter into agreements with shareholders, affiliates and other companies engaged in certain aspects of the display, electronics, optical and software industries as part of our business strategy. In addition, the wearable computing product market is relatively new and there may be other technologies the Company needs to purchase from affiliates in order to enhance its product offering.

The Company and Goertek have entered into agreements to jointly develop and commercialize a range of technologies and wearable products. These include: a mutually exclusive supply and manufacturing arrangement for a certain display product for twenty four months after mass production begins; an agreement that provides the Company with the right of first refusal to invest in certain manufacturing capacity for certain products with Goertek; an agreement whereby Goertek will provide system level original equipment manufacturing services for the Company's wearable products; an arrangement whereby the Company will supply display modules for Goertek's virtual reality and augmented reality products; and other agreements related to promotion around certain products as well as providing designs relating to head mounted displays.

The Company and RealWear, Inc. ("RealWear") have entered into agreements where the Company has agreed to supply display modules for RealWear's augmented reality products. The Company has also licensed certain intellectual property to RealWear and the Company received a 15% warrant in RealWear's next equity offering round, which was exercised in April 2018. The Company also received a \$1.5 million license fee for the intellectual property licensed to RealWear and the Company is entitled to receive sales-based royalties from RealWear. In May 2019, the Company has signed an additional agreement to license certain intellectual property to RealWear for \$3.5 million license fee and additional sales-based royalties. Of the \$3.5 million license fee, \$2.5 million was paid upon signing of the license agreement and the other \$1.0 million is paid in quarterly installments of \$0.25 million. As of December 28, 2019 the remaining receivable balance related to license fee was \$0.5 million. Additionally, in the second quarter of 2019, we made an additional equity investment in RealWear of \$2.5 million as part of an equity raise by the company. As of December 28, 2019, we own approximately 2.8% of RealWear. In the fourth quarter of 2019 Kopin reviewed the financial condition and other factors of RealWear and as a result, in the fourth quarter of 2019, we recorded an impairment charge of \$5.2 million to reduce our investment in RealWear to zero as of December 28, 2019.

On September 30, 2019 the Company entered into an Asset Purchase Agreement (the "Solos Purchase Agreement") with Solos Technology Limited ("Solos Technology"). Pursuant to the Solos Purchase Agreement, the Company sold and licensed to Solos Technology certain assets of our Solos™ ("Solos") product line and Whisper™ Audio ("Whisper") technology. As consideration for the transaction the Company received 1,172,000 common shares representing a 20.0% equity stake in Solos Technology's parent company, Solos Incorporation ("Solos Inc."). In addition, the Company has agreed to reimburse Solos Technology for sales support provided. Solos Technology has agreed to reimburse the Company for the employees time spent on Solos development. As of December 28, 2019, the Company had \$283,000 receivables outstanding from Solos Technology and had a payable of less than \$10,000 to Solos Technology.

The Company's CEO and Chairman, Dr. John C.C. Fan, acquired an individual ownership interest of 15.5% (12.3% fully diluted) of Solos Inc. Two of Dr. Fan's family members have also invested in Solos Inc., and collectively hold a 37.1% (29.5% fully diluted) ownership interest in Solos Inc.

During fiscal years 2019, 2018 and 2017, the Company had the following transactions with related parties:

	2019		2018		2017	
	Revenue	Purchases	Revenue	Purchases	Revenue	Purchases
Goertek	\$ —	\$ 747,154	\$ —	\$ 646,135	\$ —	\$ 727,101
RealWear, Inc.	5,778,672	—	1,220,838	—	576,644	—
	\$ 5,778,672	\$ 747,154	\$ 1,220,838	\$ 646,135	\$ 576,644	\$ 727,101

At December 28, 2019 and December 29, 2018, the Company had the following receivables and payables with related parties:

	December 28, 2019		December 29, 2018		
	Receivables	Payables	Receivables	Contract Assets	Payables
Goertek	\$ —	\$ —	\$ —	\$ —	\$ 207,530
RealWear, Inc.	646,848	—	1,041,334	400,000	—
	\$ 646,848	\$ —	\$ 1,041,334	400,000	\$ 207,530

18. Valuation and Qualifying Accounts

The following table sets forth activity in Kopin's allowance for doubtful accounts:

Fiscal year ended:	Balance at Beginning of Year	Additions Charged to Income	Deductions from Reserve	Balance at End of Year
December 30, 2017	\$ 136,000	\$ 13,000	\$ —	\$ 149,000
December 29, 2018	149,000	268,000	(113,000)	304,000
December 28, 2019	\$ 304,000	\$ 951,000	\$ (317,000)	\$ 938,000

INDEX TO EXHIBITS

<u>Exhibits</u>	
3.1	Amended and Restated Certificate of Incorporation filed as an exhibit to Registration Statement on Form S-1, File No. 33-57450, and incorporated herein by reference.
3.2	Amendment to Certificate of Incorporation filed as an exhibit to Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000 and incorporated herein by reference.
3.3	Amendment to Certificate of Incorporation filed as an exhibit to Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000 and incorporated herein by reference.
3.4	Fifth Amended and Restated By-laws filed as an exhibit to Current Report on Form 8-K filed on July 18, 2016 and incorporated herein by reference.
4.1	Specimen Certificate of Common Stock filed as an exhibit to Registration Statement on Form S-1, File No. 33-45853, and incorporated herein by reference.
4.2	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
10.1	Form of Employee Agreement with Respect to Inventions and Proprietary Information filed as an exhibit to Registration Statement on Form S-1, File No. 33-45853, and incorporated herein by reference.
10.2*	Kopin Corporation 2001 Equity Incentive Plan filed as an appendix to Proxy Statement filed on April 20, 2001 and incorporated herein by reference. *
10.3*	Kopin Corporation 2001 Equity Incentive Plan Amendment filed as an exhibit to Registration Statement on Form S-8 filed on August 16, 2002 and incorporated herein by reference. *
10.4*	Kopin Corporation 2001 Equity Incentive Plan Amendment filed as an exhibit to Registration Statement on Form S-8 filed on March 15, 2004 and incorporated herein by reference. *
10.5*	Kopin Corporation 2001 Equity Incentive Plan Amendment filed as an exhibit to Registration Statement on Form S-8 filed on May 10, 2004 and incorporated herein by reference. *
10.6*	Kopin Corporation 2001 Equity Incentive Plan Amendment filed as an exhibit to Registration Statement on Form S-8 filed on April 15, 2008 and incorporated herein by reference. *
10.7*	Kopin Corporation 2001 Supplemental Equity Incentive Plan filed as an exhibit to Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000 and incorporated herein by reference. *
10.8*	Form of Key Employee Stock Purchase Agreement filed as an exhibit to Registration Statement on Form S-1, File No. 33-45853, and incorporated herein by reference. *
10.9	License Agreement by and between the Company and Massachusetts Institute of Technology dated April 22, 1985, as amended, filed as an exhibit to Registration Statement on Form S-1, File No. 33-45853, and incorporated herein by reference.
10.10	Facility Lease, by and between the Company and Massachusetts Technology Park Corporation, dated October 15, 1993 filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 1993 and incorporated herein by reference.
10.11	Joint Venture Agreement, by and among the Company, Kowon Technology Co., Ltd., and Korean Investors, dated as of March 3, 1998 filed as an exhibit to Annual Report on Form 10-Q for the quarterly period ended June 27, 1998 and incorporated herein by reference.
10.12*	Ninth Amended and Restated Employment Agreement between the Company and Dr. John C.C. Fan, dated as of December 31, 2017. *
10.13*	Kopin Corporation Form of Stock Option Agreement under 2001 and 2010 Equity Incentive Plans filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 25, 2004 and incorporated herein by reference. *
10.14*	Kopin Corporation 2001 and 2010 Equity Incentive Plan Form of Restricted Stock Purchase Agreement filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 25, 2004 and incorporated herein by reference. *
10.15*	Kopin Corporation Fiscal Year 2012 Incentive Bonus Plan filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and incorporated herein by reference. *
10.16	Kopin Corporation 2010 Equity Incentive Plan filed with the Company's Definitive Proxy Statement on Schedule 14 filed as of April 5, 2013 and incorporated by reference herein.
10.17	Purchase Agreement, dated January 10, 2013, by and among Kopin Corporation, IOE KC, LLC and IOE plc filed as an exhibit to Current Report on Form 8-K on January 10, 2013 and incorporated by reference herein.
10.18*	Offer Letter, dated January 17, 2019, by and between Kopin Corporation and Paul Baker filed as an exhibit to the Current Report on Form 8-K filed on January 22, 2019 and incorporated by reference herein.

10.19†	Asset Purchase Agreement, dated September 30, 2019, by and between Kopin Corporation, Kopin Display Corporation and Solos Technology Limited.
21.1	Subsidiaries of Kopin Corporation
23.1	Consent of Independent Registered Public Accounting Firm - RSM US LLP
23.2	Consent of Independent Registered Public Accounting Firm - Deloitte & Touche LLP
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.
101.0	The following materials from the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Loss, (iv) Consolidated Statements of Stockholder's Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text.
*	Management contract or compensatory plan required to be filed as an Exhibit to this Form 10-K.
†	Portions of this exhibit and the schedules thereto, marked by brackets, have been omitted pursuant to Item 601(b)(10) of Regulation S-K.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 11, 2020

KOPIN CORPORATION

By: _____ /s/ JOHN C.C. FAN
John C.C. Fan
Chairman of the Board, Chief Executive Officer, President and Director

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JOHN C.C. FAN</u> John C.C. Fan	Chairman of the Board, Chief Executive Officer, President and Director (Principal Executive Officer)	March 11, 2020
<u>/s/ JAMES BREWINGTON</u> James Brewington	Director	March 11, 2020
<u>/s/ DAVID E. BROOK</u> David E. Brook	Director	March 11, 2020
<u>/s/ MORTON COLLINS</u> Morton Collins	Director	March 11, 2020
<u>/s/ RICHARD H. OSGOOD III</u> Richard H. Osgood III	Director	March 11, 2020
<u>/s/ CHI CHIA HSIEH</u> Chi Chia Hsieh	Director	March 11, 2020
<u>/s/ SCOTT L. ANCHIN</u> Scott L. Anchin	Director	March 11, 2020
<u>/s/ RICHARD A. SNEIDER</u> Richard A. Snieder	Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	March 11, 2020

**DESCRIPTION OF KOPIN CORPORATION'S SECURITIES
REGISTERED UNDER
SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

As of December 28, 2019, Kopin Corporation ("Kopin," the "Company," "we," or "our") had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): our common stock, par value \$0.01 per share (the "Common Stock").

DESCRIPTION OF COMMON STOCK

The following description of our Common Stock is a summary, does not purport to be complete and is subject to the provisions of our Amended and Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"), and our Fifth Amended and Restated Bylaws (the "Bylaws"). For the complete terms of our Common Stock, please refer to our Certificate of Incorporation and our Bylaws.

Under our Certificate of Incorporation, we are authorized to issue 120,000,000 shares of Common Stock, and 3,000,000 shares of preferred stock, par value \$0.01 per share (the "Preferred Stock").

Dividends

Holders of Common Stock are entitled to receive proportionately any dividends as may be declared by our Board of Directors (the "Board"), subject to any preferential dividend rights of any outstanding Preferred Stock.

Conversion Rights

The shares of Common Stock are not convertible into other securities.

Sinking Fund Provisions

Our Common Stock does not have any sinking fund provisions.

Redemption Provisions

Our Common Stock has no right to redemption.

Voting Rights

Holders of our Common Stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. An election of directors by our stockholders shall be determined by a plurality of the votes cast by the stockholders entitled to vote on the election.

Liquidation Rights

If we are liquidated or dissolved, holders of our Common Stock will be entitled to receive our assets and funds available for distribution to common stockholders in proportion to the number of shares they hold. Our Common stockholders may not receive any assets or funds until our creditors have been paid in full and the preferential or participating rights of our preferred stockholders have been satisfied. If we participate in a corporate merger, consolidation, purchase or acquisition of property or stock, or other reorganization, any payments or shares of stock allocated to our common stockholders will be distributed pro rata to holders of our common stock on a per share basis. If we redeem, repurchase or otherwise acquire for payment any shares of our common stock, we will treat each share of common stock identically.

Preemption Rights

Our Common Stock has no right to preemption.

Anti-Takeover Provisions

We are subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a Delaware corporation from engaging in any "business combination" with any "interested stockholder" for a period of three years following the date the stockholder became an interested stockholder, unless:

- prior to such date, the Board approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) those shares owned by persons who are directors and also officers and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or subsequent to such date, the business combination is approved by the Board and authorized at an annual meeting or special meeting of stockholders and not by written consent, by the affirmative vote of at least 66-2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines a business combination to include:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an "interested stockholder" as any entity or person beneficially owning 15% or more of the outstanding voting stock of a corporation, or an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of a corporation at any time within three years prior to the time of determination of interested stockholder status; and any entity or person affiliated with or controlling or controlled by such entity or person.

These statutory provisions could delay or frustrate the removal of incumbent directors or a change in control of our company. They could also discourage, impede, or prevent a merger, tender offer, or proxy contest, even if such event would be favorable to the interests of stockholders.

Our Certificate of Incorporation and Bylaws contain provisions that could have the effect of discouraging potential acquisition proposals or making a tender offer or delaying or preventing a change in control, including changes a stockholder might consider favorable. In particular, the Certificate of Incorporation and Bylaws, as applicable, among other things:

- provide for advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors;
- provide that vacancies on our Board may be filled by a majority of directors in office, although less than a quorum;
- provide our Board with the ability to amend or repeal our Bylaws, or adopt new bylaws without stockholder approval;
- provide our Board with the ability to increase or decrease the size of the Board without stockholder approval; and
- provide that stockholders do not have the right to call a special meeting of stockholders.

Such provisions may have the effect of discouraging a third party from acquiring us, even if doing so would be beneficial to our stockholders. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our Board and in the policies formulated by them, and to discourage some types of transactions that may involve an actual or threatened change in control of Kopin. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage some tactics that may be used in proxy fights. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure Kopin outweigh the disadvantages of discouraging such proposals because, among other things, negotiation of such proposals could result in an improvement of their terms. However, these provisions could have the effect of discouraging others from making tender offers for our shares that could result from actual or rumored takeover attempts. These provisions also may have the effect of preventing changes in our management.

Stock Exchange Listing

Our Common Stock is listed on the Nasdaq Global Select Market under the symbol "KOPN."

Transfer Agent and Registrar

The transfer agent and registrar for our Common Stock is Computershare Trust Company, N.A.

Information in this exhibit identified by [***] is confidential and has been excluded pursuant to Item 601(b)(10)(iv) of Regulation S-K because it is both (i) not material and (ii) would likely cause competitive harm to the registrant if publicly disclosed.

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (the "**Agreement**") is made and entered to this 30th day of September, 2019 by and between Solos Technology Limited, with its principal place of business at 2/F, Unit 211, 2/F., Photonics Centre, No. 2 Science Park East Avenue, Hong Kong Science Park, Shatin, N.T, Hong Kong (hereinafter called "**Purchaser**"), KOPIN Corporation and KOPIN Display Corporation, each with offices at 125 North Drive, Westborough, MA 01581 (collectively, with their Affiliates called "**KOPIN**", and with Purchaser each a "**Party**," and collectively, the "**Parties**").

WHEREAS, KOPIN has developed wearable computing systems for certain consumer markets as defined below collectively as "**Solos Products**," and audio noise cancellation technology for use in head worn computing products, as defined below as "**Whisper Technology**";

WHEREAS, subject to the terms and conditions set forth in this Agreement, KOPIN wishes to assign and transfer to Purchaser, and Purchaser wishes to acquire from KOPIN, certain assets relating to the Solos Products and Whisper Technology;

NOW, THEREFORE in consideration of the mutual terms, conditions and other agreements set forth herein, and for other valuable consideration, the receipt and adequacy of which are hereby conclusively acknowledged, the Parties hereto, intending to be legally bound, hereby agree as follows:

ARTICLE I DEFINITIONS

Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms as set forth below:

"**Acquired Assets**" shall mean those assets set forth in **Schedule 1** attached hereto.

"**Acquired Contracts**" shall mean those contracts set forth in **Schedule 1.E** attached hereto.

"**Acquired Intellectual Property**" shall mean all Acquired Assets that are Intellectual Property Rights.

"**Acquired Registrations**" shall mean the Solos Patents, the Whisper Technology Patents and the Acquired Trademarks.

"**Acquired Trademarks**" has the meaning given to such term on **Schedule 1** attached hereto.

"Affiliate" shall mean, with respect to any Party, any corporation or other entity that controls, is controlled by, or is under common control with such Party. For purposes of this definition only, to **"control"** means the power to determine directly or indirectly the activities, management or policies of such entity by ownership of a majority of voting rights of its issued capital, by having the right to appoint a majority of the members of its board of directors, or by contract.

"Assumed Liabilities" shall mean (i) all liabilities and obligations of KOPIN arising after the Closing under the Acquired Contracts, other than those liabilities and obligations in respect of the Hong Kong Lease as set forth in paragraph (i) under the definition of "Retained Liabilities, and liabilities and obligations of KOPIN arising prior to the Closing under the Solos Air POs (as defined in Schedule 1.E), (ii) liabilities, commitments and obligations arising out of or based upon the Purchaser's ownership and operation of the Acquired Assets from and after the Closing Date and (iii) severance payment obligations arising from termination of the employment of Solos and Whisper Personnel employed by Purchaser after the ninetieth (90th) day after the Closing Date, even if the amounts of such payment obligations are determined based on previous employment with KOPIN.

"Business Day" shall mean a day other than a Saturday, Sunday or other day on which commercial banks in the City of Boston, Massachusetts, are authorized or obligated by Law or executive order to close.

"Calendar Month" shall mean each one (1) month period during each Calendar Year beginning on the first day of a month and ending on the last day of such month.

"Calendar Quarter" shall mean the three (3) Calendar Month period during each Calendar Year beginning January 1, April 1, July 1 or October 1.

"Calendar Year" shall mean each successive period of twelve (12) Calendar Months commencing on January 1 and ending on December 31.

"Consent" shall mean any approval, consent, ratification, permission, waiver or authorization from or notice to any Person, whether written or otherwise given, including, without limitation, any Governmental Entity.

"Closing" shall have the meaning set forth in Section 4.1. **"Closing Date"** shall have the meaning set forth in Section 4.1.

"Commercialization Date" shall mean the date on which Purchaser has sold its five hundredth (500th) unit of Solos Products to bona fide customers that are not Affiliates of the Purchaser (determined on a cumulative basis during the period following the Closing).

"Contemplated Transactions" shall mean the transactions contemplated by this Agreement and all other Transaction Documents.

"Contract" shall mean any agreement, contract, subcontract, executory purchase order, instrument, note, bond, mortgage, indenture, deed of trust, lease, license or other binding arrangement, commitment or obligation, whether written or oral.

"Encumbrance" shall mean any mortgage, deed of trust, pledge, charge, lien, hypothecation, encumbrance, security interest or other adverse claim of any kind.

"Governmental Entity" shall mean any domestic or foreign federal, national, supranational, state, provincial, local or other government, governmental, regulatory or administrative authority, agency or commission or any court, tribunal, or judicial or arbitral body.

"Hong Kong Lease" shall have the meaning set forth in Schedule 1.E.

"Hong Kong Lease Determination" shall mean the mutual agreement of Purchaser and KOPIN, following discussions conducted in good faith between the Parties, either to assign the Hong Kong Lease to the Purchaser or to terminate the Hong Kong Lease to enable the Purchaser to enter into a new lease with respect to the property subject to the Hong Kong Lease.

"Indemnified Party" shall mean any Purchaser Indemnitee or KOPIN Indemnitee making a proper claim for indemnification as permitted in accordance with and pursuant to the terms of Section 9.2 or Section 9.3 (as applicable) of this Agreement.

"Indemnifying Party" shall mean any party against whom a claim for indemnification is properly asserted as permitted in accordance with and pursuant to the terms of Section 9.2 or Section 9.3 (as applicable) of this Agreement.

"Intellectual Property Rights" shall mean, on a worldwide basis, any and all: (i) patents, patent applications, patent disclosures and all related re-issuances, continuations, continuations-in-part, requests for continued examinations, renewals, divisions, extensions, reexaminations post-grant reviews, interpartes reviews, supplemental examinations and counterparts thereof, all industrial designs, industrial models and utility models, certificates of invention and design patents, as well as the rights to file for, and to claim priority to, any such patent rights; (ii) registered and unregistered copyrights in both published and unpublished works and all moral rights, and all applications, registrations, renewals and

extensions in connection therewith, together with all translations thereof, (iii) inventions, invention disclosures, code, designs, methods, processes, techniques, technology, product roadmaps, drawings, designs, plans, proposals, rights relating to innovations, know-how, trade secrets, and confidential, technical information; (iv) other proprietary and intellectual property related rights relating to any of the foregoing; and (v) rights to past, present or future claims or causes of action arising out of or related to any infringement, dilution, misappropriation, improper disclosure or other violation of any of the foregoing, and all proceeds arising in connection therewith.

"KOPIN Indemnitees" shall mean KOPIN and its Affiliates, their successors and permitted assigns, and the respective agents, officers, members, managers, equity holders, employees and other Representatives of all of the foregoing.

"Law" shall mean any statute, law, ordinance, regulation, rule, code, constitution, treaty, judgment, decree, other requirement or rule of law of any Governmental Entity.

"Legal Proceeding" shall mean any charge, dispute, action, claim (including any cross-claim or counter-claim), complaint, demand, suit, litigation, arbitration, proceeding (including any civil, criminal, administrative, investigative or appellate or other legal proceeding), hearing, inquiry, audit, examination or investigation commenced, brought, conducted or heard by or before, or otherwise involving, any court or other Governmental Entity or any arbitrator or arbitration panel.

"Liability" shall mean any and all debts, liabilities, guarantees, assurances, commitments and obligations, whether fixed, contingent or absolute, asserted or unasserted, matured or unmatured, liquidated or unliquidated, accrued or not accrued, known or unknown, due or to become due, whenever or however arising, including, without limitation, any such liabilities arising under any Law, Legal Proceeding, Order or Contract.

"Loss" and **"Losses"** shall mean any losses, damages, Liabilities, deficiencies, amounts paid or payable to a Third Party in settlement, judgments, awards, penalties, fines, costs or expenses, including reasonable fees of attorneys, and the cost of enforcing any right to indemnification hereunder.

"Material Adverse Effect" shall mean any event, occurrence, fact, condition, development or change that is, or could reasonably be expected to become, individually or in the aggregate, materially adverse to (a) the value of the Acquired Assets; or (b) the ability of KOPIN to consummate the Contemplated Transactions.

"Net Sales Price" shall mean, with respect to each purchased and shipped Solos Product, the gross selling price received by Purchaser for such Solos Product less the following items to the extent they are included in such gross selling price and, if applicable, separately stated

on the invoice therefor: with respect to such Solos Product, (i) any discounts, rebates (including promotional rebates not to exceed 40% of the listed gross selling price), refunds and credits (including amounts repaid by reason of returns, billing errors, and the like), in each case to the extent actually given, (ii) insurance, transportation and other delivery charges paid by the Purchaser, and (iii) sales, excise, value added and other taxes, duties or governmental charges imposed on the Purchaser with respect to the sale and shipping of such Solos Product. If a Solos Product is purchased by and shipped to an Affiliate of Purchaser, the Net Sales Price shall be determined based on the ultimate gross selling price to the non-Affiliated end customer (less (i) any discounts, rebates (including promotional rebates not to exceed 40% of the listed gross selling price), refunds and credits (including amounts repaid by reason of returns, billing errors, and the like), in each case to the extent actually given, (ii) insurance, transportation and other delivery charges paid by the Purchaser or its Affiliates, and (iii) sales, excise, value added and other taxes, duties or governmental charges imposed on the Purchaser or its Affiliates with respect to the sale and shipping of such Solos Product to the non-Affiliated end customer, to the extent they are included in such gross selling price and, if applicable, separately stated on the invoice therefor).

"Net Sales Amount" shall mean, with respect to any Calendar Quarter, the aggregate Net Sales Price of all Solos Products shipped to all customers during such Calendar Quarter.

"Order" shall mean any injunction, order, writ, stipulation, award, decision, ruling, subpoena, verdict or decree entered, issued or made by or with any Governmental Entity having competent jurisdiction.

"Organizational Documents" shall mean, with respect to any Person that is an entity, such Person's charter, certificate or articles of incorporation or formation, bylaws, memorandum and articles of association, operating agreement, limited liability company agreement, partnership agreement, limited partnership agreement, limited liability partnership agreement or other constituent or organizational documents of such Person.

"Patent" shall mean (a) patents and patent applications (including any provisional applications), and all continuations, continuations-in-part, divisionals, patents issued therefrom, re-examinations, reissues, revisions, and extensions thereof; and (b) utility models, industrial designs and other statutory invention registrations, and applications for any of the foregoing.

"Permits" shall mean all waivers, clearances, licenses, permits, certifications, declarations, registrations, orders, accreditations, authorizations, certificates of occupancy or regulatory plans, compliance standards and approvals issued by any Governmental Entity.

"Permitted Encumbrances" shall mean: (a) liens for taxes not yet due and payable; (b) mechanics', carriers', workmen's, repairmen's or other like liens arising or incurred in the

ordinary course of business that are not yet due and payable and which are not, individually or in the aggregate, material; (c) any Encumbrances (whether for indebtedness or otherwise) that will be satisfied at or prior to the Closing; and (d) liens arising under original purchase price conditional sales contracts and equipment leases with Third Parties entered into in the ordinary course of business consistent with past practice which are not, individually or in the aggregate, material to the Acquired Assets.

"Person" shall mean any natural individual, sole proprietorship, partnership, joint venture, estate, trust, unincorporated organization, association, corporation, limited liability company, institution, bank, trust company or other entity or any Governmental Entity.

"Purchaser Indemnitees" shall mean Purchaser and its Affiliates, their successors and permitted assigns, and the respective agents, officers, members, managers, equity holders, employees and other Representatives of all of the foregoing.

"Related Party" shall mean, with respect to any Person, any current direct or indirect equity holders, controlling persons, shareholders, directors, officers, employees, agents, Affiliates, members, managers, general or limited partners or other Representatives of such Person.

"Representatives" shall mean, with respect to any Person, any and all directors, officers, members, managers, partners, employees, consultants, financial advisors, lenders, counsel, accountants and other agents of such Person.

"Retained Liabilities" shall mean (i) any and all liabilities or obligations (whether known or unknown, absolute or contingent, liquidated or unliquidated, due or to become due and accrued or unaccrued, and whether claims with respect thereto are asserted before or after the Closing) of KOPIN that are not Assumed Liabilities and (ii) subject to Section 7.1.4, severance payment obligations arising from termination of the employment of Solos and Whisper Personnel employed by Purchaser on or prior to the ninetieth (90th) day after the Closing Date, to the extent the amounts of such payment obligations are determined based on previous employment with KOPIN. Retained Liabilities shall include, without limitation, all liabilities and obligations of KOPIN:

(a) that do not relate to the Acquired Assets;

(b) that are accrued or owing as to the Acquired Assets with respect to any period prior to the Closing Date, including, without limitation, liabilities and obligations in the nature of product liability claims with respect to Solos Products sold by KOPIN prior to the Closing Date;

(c) for income, transfer, sales, use or other taxes on KOPIN arising in connection with the consummation of the Contemplated Transactions;

- (d) for taxes, including deferred taxes or taxes measured by income of KOPIN earned prior to the Closing, and any liabilities for federal or state income tax and FICA taxes of employees of KOPIN which KOPIN is legally obligated to withhold;
- (e) under any agreements, contracts, leases or licenses other than the Acquired Contracts;
- (f) arising prior to the Closing under any Acquired Contract, and all liabilities for any breach, act or omission by KOPIN prior to the Closing under any Acquired Contract;
- (g) for repair, replacement or return of Solos Products sold prior to the Closing, provided that, from the Acquired Assets, KOPIN shall retain possession of three hundred and fifty (350) of the Solos Sport units which KOPIN shall be entitled to deliver to end customers to fulfill this obligation and, provided, further, that KOPIN shall deliver to Purchaser, on a date determined by KOPIN that is not more than eighteen (18) months after the Closing Date, all such units that have not been used to fulfill such obligation by such time;
- (h) arising out of events, conduct or conditions existing or occurring prior to the Closing that constitute a violation of or non-compliance with any Law, rule or regulation or any judgment, decree or Order of any Governmental Entity;
- (i) to pay severance benefits to any employee of KOPIN whose employment with KOPIN is terminated in connection with the consummation of the Contemplated Transactions; and
- (j) with respect to the Hong Kong Lease, (x) if the Parties agree in the Hong Kong Lease Determination to assign the Hong Kong Lease to the Purchaser, that portion of the lease rate representing the difference in the lease rates on the Hong Kong Lease arising in connection with the transfer and assignment of the Hong Kong Lease by KOPIN to Purchaser for the period from March 2018 to February 2020 in the total amount of Twenty-One Thousand Six Hundred and Two US Dollars (US\$21,602) and (y) if the Parties agree in the Hong Kong Lease Determination to terminate the Hong Kong Lease, liabilities and obligations of KOPIN under the Hong Kong Lease arising from the termination of the Hong Kong Lease by KOPIN.

"Shipments" shall mean the quantity of Solos Products shipped by Purchaser to any non-Affiliated organizations, either as sold product on a standalone basis or within a larger system, or for marketing or other purposes on a standalone basis or within a larger system.

"Solos Cayman" shall mean Solos Incorporation, a company established under the laws of the Cayman Islands.

"Solos Patents" has the meaning given to such term on Schedule 1 attached hereto.

"Solos Products" shall mean the wearable electronic products for the consumer markets known internally within KOPIN as Solos Sports, Solos Air and Solos Hear and any successor or derivative products as may be re-designed or re-configured.

"Third Party" shall mean any Person who is not a Party to this Agreement or an Affiliate of a Party to this Agreement or a Representative of the foregoing.

"Trademark" shall mean (a) trademarks, service marks, certification marks, logos, trade dress, trade names, brand names, corporate names, domain names, and other indicia of commercial source of origin (whether registered, common law, statutory or otherwise), together with all translations, localizations, adaptations, derivations and combinations thereof; (b) all registrations and applications to register the foregoing (including any intent-to-use trademark applications); and (c) all goodwill connected with the use thereof or symbolized thereby.

"Transaction Documents" shall mean this Agreement, the Exhibits and Schedules hereto, the Assignment and Assumption Agreement, Solos Services Agreement, KOPIN Services Agreement, Whisper License Agreement, Share Purchase Agreement and all other agreements, certificates, instruments and documents that have, in accordance with the terms of this Agreement, been delivered prior to the Closing or are required by this Agreement to be delivered at the Closing.

"Transaction Expenses" shall mean all costs and expenses, including, without limitation, fees and disbursements of counsel, financial advisors, accountants and other advisors, that are incurred prior to the Closing and that are payable in connection with the negotiation, preparation or execution of this Agreement or the other Transaction Documents.

"**Whisper Technology**" shall mean KOPIN's proprietary audio noise cancellation technology based on the Patents, proprietary algorithms, algorithm constructs and other Intellectual Property Rights listed on Schedule 2 attached and all improvements thereto.

"**Whisper Technology Patents**" has the meaning given to such term on **Schedule 1** attached hereto.

ARTICLE II

PURCHASE AND SALE OF ASSETS

Section 2.1 Purchase and Sale of Assets.

On the terms and subject to the conditions set forth in this Agreement, at the Closing, KOPIN shall sell, transfer, assign, convey and deliver to Purchaser, and Purchaser shall purchase, acquire, accept and assume from KOPIN, free and clear of any Encumbrances (other than Permitted Encumbrances), all of KOPIN's right, title and interest in, to and under the Acquired Assets.

Section 2.2 Excluded Assets.

Notwithstanding anything to the contrary contained in Section 2.1, KOPIN shall retain all of its respective right, title and interest in and to, and shall not sell, transfer, assign, convey or deliver to Purchaser its right, title and interest to any assets other than the Acquired Assets.

Section 2.3 Assumption of Liabilities.

On the terms and subject to the conditions set forth in this Agreement, at the Closing, Purchaser shall assume and become liable for, from and after the Closing, the Assumed Liabilities.

Section 2.4 Excluded Liabilities.

Notwithstanding anything to the contrary contained in Section 2.3 or any other provision of the Transaction Documents, Purchaser shall not assume or become responsible for, and KOPIN shall remain liable for, the Retained Liabilities.

ARTICLE III

PURCHASE PRICE

Section 3.1 Consideration for Acquired Assets.

The aggregate consideration to be paid hereunder by Purchaser to KOPIN as payment for the Acquired Assets shall comprise the following:

3.1.1 Equity. At the Closing of the Contemplated Transactions, Solos Cayman shall issue to KOPIN 1,172,000 of Solos Cayman's Ordinary Shares ("**Solos Shares**") pursuant to the Share Purchase Agreement (as defined below) representing not less than twenty percent (20%) of the Solos Cayman's fully diluted ownership at Closing, subject to KOPIN's antidilution rights set forth therein.

3.1.2 Royalties. The Purchaser shall pay to KOPIN a [***] percent ([***]%) royalty (the **Purchaser Royalty**) on Net Sales Amount of any of Solos Products shipped during the period commencing on the first anniversary of the Commercialization Date and ending on the fourth anniversary of the Commercialization Date (the **"Royalty Period"**).

Section 3.2 Shipment Report

Purchaser shall provide within thirty (30) days following each Calendar Quarter that falls partially or wholly within the Royalty Period a report to KOPIN setting forth the (i) quantity of units of Solos Products shipped in such Calendar Quarter (or portion thereof, as applicable) and a description and the prices paid therefor, (ii) the Net Sales Amount for such Calendar Quarter (or portion thereof, as applicable) and (iii) the calculation of Purchaser Royalties owed to KOPIN with respect to such Calendar Quarter (or portion thereof, as applicable) (the **Purchaser Shipment Report**). Payment to KOPIN for the Purchaser Royalties based on such Purchaser Shipment Report shall be made by the fortieth (40th) day following the end of each Calendar Quarter that falls partially or wholly within the Royalty Period.

Section 3.3 Royalty Payment

All monetary amounts are stated and all amounts due shall be payable in United States Dollars. Acceptance of any Purchaser Shipment Report by KOPIN does not waive the rights that KOPIN has under Section 3.5 below to an annual audit. Purchaser's obligation to pay Purchaser Royalties hereunder survives any termination or expiration of this Agreement with respect to Purchaser Royalties accrued prior to the effective date of termination.

Section 3.4 Taxes

All amounts to be paid to KOPIN pursuant to this Agreement shall be without deduction of collection, or other charges, and, specifically, without deduction of withholding or similar taxes or other government imposed fees or taxes, except as may be required by Law. Neither Party may offset amounts owed to the other Party with amounts owed from the other Party.

Section 3.5 Records and Audit Right

Purchaser shall maintain complete and accurate records of Shipments of the Solos Products that are shipped during the Royalty Period and any amounts payable to KOPIN in relation to such Solos Products, which records shall contain information reasonably sufficient to permit KOPIN to confirm the accuracy of any Purchaser Shipment Reports

delivered to KOPIN hereunder. Purchaser shall retain such records for at least five (5) years from the date of the Purchaser Shipment Report to which they pertain. At KOPIN's request and at least thirty (30) days before a planned audit, Purchaser shall, at KOPIN's expense, permit an independent auditor selected by KOPIN to have access, no more than once each Calendar Year (unless a preceding audit revealed a discrepancy greater than 5% of amounts reported to KOPIN as owed by the Purchaser) and during Purchaser's regular business hours, to those records and documents of Purchaser retained by Purchaser pursuant to this Section 3.5. If the review by the auditor uncovers an underreporting of more than five percent (5%) of the Purchaser Royalties due in a Calendar Year, then the cost of such auditing shall be paid by Purchaser. Purchaser shall keep records as required hereunder at Purchaser's corporate headquarters.

Section 3.6 Previously Paid Solos Air POs

To the extent KOPIN has paid any portion of the amounts listed on Schedule 1.E-1 with respect to the Solos Air POs prior to the Closing, Purchaser agrees to reimburse KOPIN for the actual amounts so paid by KOPIN, up to \$75,000 in the aggregate. KOPIN shall provide to the Purchaser documentation of such paid amounts to the reasonable satisfaction of the Purchaser, and the Purchaser shall make such reimbursement payment promptly following its receipt of such documentation.

ARTICLE IV CLOSING

Section 4.1 Closing

The closing for the Contemplated Transaction ("**Closing**") shall take place at the offices of Chu, Ring & Hazel LLP, 241 A Street, Suite 300, Boston, Massachusetts on September 30, 2019 at 10:00 a.m. local time or at such other time or place as is mutually agreed upon by the Parties (the "**Closing Date**"). By mutual agreement of the Parties, the Closing may take place by electronic (i.e., email/PDF) delivery of signature pages to this Agreement and the other Transaction Documents.

Section 4.2 Closing Deliveries

4.2.1 At or prior to the Closing the Parties shall execute and deliver to each other, or cause to be executed and delivered to each other, the following documents:

(a) An assignment and assumption agreement in substantially the form attached hereto as Exhibit A (the "**Assignment and Assumption Agreement**");

(b) The instruments identified in Schedule 4.2.1 attached hereto, together with all such other bills of sale, assignments, endorsements, intellectual property

right assignments, trade name assignments, domain name assignments, consents and other good and sufficient instruments and documents of conveyance and transfer in a form reasonably satisfactory to Purchaser, as Purchaser reasonably shall deem necessary or

appropriate to effect the Contemplated Transactions, including without limitation the sale, transfer, assignment and conveyance to Purchaser of all of the Acquired Assets;

(c) A services agreement regarding the provision of certain of Purchaser's services to KOPIN in substantially the form attached hereto as **Exhibit B** (the "**Solos Services Agreement**");

(d) A services agreement regarding the provision of certain of KOPIN's services to Purchaser in substantially the form attached hereto as **Exhibit C** (the "**KOPIN Services Agreement**");

(e) A license agreement in substantially the form attached hereto as **Exhibit D** (the "**Whisper License Agreement**");

(f) A share purchase agreement between KOPIN and Solos Cayman in substantially the form attached hereto as **Exhibit E** (the "**Share Purchase Agreement**");

(g) A certificate of continuing registration from the Hong Kong Companies Registry, and a Certificate of Good Standing from the Cayman Islands Government General Registry; and

(h) Such certificates or other instruments of the Parties or of officers of the Parties as each Party and its counsel may reasonably think necessary in order to establish that the terms, covenants and conditions contained in this Agreement to have been performed or complied with by the other Party at or prior to the Closing have been performed or complied with and that the representations and warranties of the respective Parties herein given are true and correct at the Closing.

4.2.2 At or prior to the Closing Purchaser shall issue and deliver to KOPIN pursuant to the Share Purchase Agreement stock certificates in proper form evidencing the Solos Shares.

4.2.3 If and to the extent any of the Acquired Assets consist of tangible personal property, on or promptly following the Closing such Acquired Assets shall be conveyed, transferred and delivered by KOPIN to Purchaser with title passing at Purchaser's principal place of business in Hong Kong or such other address as Purchaser may designate in writing.

ARTICLE V REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser hereby represents and warrants to KOPIN that the statements contained in this Article V are true and correct as of the date hereof and are true and correct in all material respects as of the Closing Date:

Section 5.1 Organization and Qualification; Ownership Purchaser is a limited liability company duly organized, validly existing and in good standing under the Laws of Hong Kong, and has all requisite power and authority to own, lease and operate its properties and

assets and to carry on its business as it is now being conducted. Purchaser is a direct, wholly-owned subsidiary of Solos Cayman.

Section 5.2 Power and Authority. Purchaser has the requisite power and authority to enter into this Agreement and each other Transaction Document to which it is a party, to carry out its obligations hereunder and thereunder and to consummate the Contemplated Transactions. The execution and delivery by Purchaser of this Agreement and each other Transaction Document to which it is a party, the performance of its obligations hereunder and thereunder, and the consummation of the Contemplated Transactions, have been duly authorized by all requisite action on the part of Purchaser. This Agreement and each other Transaction Document to which Purchaser is a party have been, or, as applicable, at the Closing will be, duly executed and delivered by Purchaser and, assuming the due authorization, execution and delivery by the other Parties thereto, shall constitute legal, valid and binding obligations of Purchaser, enforceable against Purchaser in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding at Law or in equity).

Section 5.3 Noncontravention; Consents The execution, delivery and performance by Purchaser of this Agreement and the other Transaction Documents to which Purchaser is a party, and the consummation of the Contemplated Transactions, do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of the Organizational Documents of Purchaser; (b) conflict with or result in a violation or breach of any provision of any Law or Order applicable to Purchaser; or (c) require the Consent, notice or other action by any Person or Governmental Entity under, conflict with, result in a violation or breach of, constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under, result in the acceleration of or create in any party the right to accelerate, terminate, modify or cancel any Contract to which Purchaser is a party or by which Purchaser is bound.

Section 5.4 Legal Proceedings; Orders. There are no Legal Proceedings pending or, to Purchaser's knowledge, threatened by or against Purchaser that (a) challenge or seek to enjoin, alter or materially delay the Contemplated Transactions; or (b) would, individually or in the aggregate, reasonably be expected to have a material adverse effect on Purchaser's

ability to perform its obligations hereunder. Purchaser is not subject to any Order that (i) challenges or seeks to enjoin, alter or materially delay the Contemplated Transactions; or (ii) would, individually or in the aggregate, reasonably be expected to have a material adverse effect on Purchaser's ability to perform its obligations hereunder.

Section 5.5 Brokers. There is no investment banker, broker, finder or other intermediary or agent who has been retained by or is authorized to act on behalf of Purchaser that might be entitled to any fee or commission in connection with the Contemplated Transactions.

ARTICLE VI REPRESENTATIONS AND WARRANTIES OF KOPIN

KOPIN hereby represents and warrants to Purchaser that, except as set forth on Schedule 6 attached, the statements contained in this Article VI are true and correct as of the date hereof and are true and correct in all material respects as of the Closing Date.

Section 6.1 Organization and Qualification KOPIN is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware, and has all requisite power and authority to own, lease and operate its properties and assets and to carry on its business as it is now being conducted.

Section 6.2 Power and Authority. KOPIN has the requisite power and authority to enter into this Agreement and each other Transaction Document to which it is a party, to carry out its obligations hereunder and thereunder and to consummate the Contemplated Transactions. The execution and delivery by KOPIN of this Agreement and each other Transaction Document to which it is a party, the performance of its obligations hereunder and thereunder, and the consummation of the Contemplated Transactions, have been duly authorized by all requisite action on the part of KOPIN. KOPIN has complied with the requirements of Delaware General Corporation Law, Chapter 50, Section 144(a)(i) in connection with authorizing this Agreement, the Transaction Documents and the transactions contemplated hereby and thereby. This Agreement and each other Transaction Document to which KOPIN is a party have been, or, as applicable, at the Closing will be, duly executed and delivered by KOPIN and, assuming the due authorization, execution and delivery by the other Parties thereto, shall constitute legal, valid and binding obligations of KOPIN, enforceable against KOPIN in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding at Law or in equity).

Section 6.3 Noncontravention; Consents. The execution, delivery and performance by KOPIN of this Agreement and the other Transaction Documents to which KOPIN is a party, and the consummation of the Contemplated Transactions, do not and will not: (a) conflict

with or result in a violation or breach of, or default under, any provision of the Organizational Documents of KOPIN; (b) conflict with or result in a violation or breach of any provision of any Law or Order applicable to KOPIN; or (c) require the Consent, notice or other action by any Person or Governmental Entity under, conflict with, result in a violation or breach of, constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under, result in the acceleration of or create in any party the right to accelerate, terminate, modify or cancel any Contract to which KOPIN is a party or by which KOPIN is bound.

Section 6.4 Legal Proceedings; Orders Except as disclosed on Schedule 6, there are no Legal Proceedings pending or, to KOPIN's knowledge, threatened by or against KOPIN that (a) challenge or seek to enjoin, alter or materially delay the Contemplated Transactions; or (b) would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. KOPIN is not subject to any Order that (i) challenges or seeks to enjoin, alter or materially delay the Contemplated Transactions; or (ii) would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 6.5 Brokers. There is no investment banker, broker, finder or other intermediary or agent who has been retained by or is authorized to act on behalf of KOPIN that might be entitled to any fee or commission in connection with the Contemplated Transactions

Section 6.6 Title, Sufficiency and Condition of Assets KOPIN has good and valid title to, or a valid leasehold interest in or to the extent being licensed a valid license to use, all of the Acquired Assets, which shall be free and clear of any Encumbrances (other than Permitted Encumbrances) as of the Closing Date. Upon execution and delivery by KOPIN to Purchaser of the instruments of conveyance referred to in Section 4.2.1, Purchaser will become the true and lawful owner of, and will receive good title to, the Acquired Assets, free and clear of all Encumbrances (other than Permitted Encumbrances).

Section 6.7 Intellectual Property.

6.7.1 All assignments of the Acquired Registrations to KOPIN have been properly executed and recorded. To the knowledge of KOPIN, all Acquired Registrations are valid and enforceable and all issuance, renewal, maintenance and other payments that are or have become due with respect thereto have been timely paid by or on behalf of KOPIN.

6.7.2 Except as disclosed on Schedule 6, there are no inventorship challenges, opposition or nullity proceedings or interferences declared, commended or provoked, or, to the knowledge of KOPIN threatened, with respect to the Acquired Registrations.

6.7.3 To the best of KOPIN's knowledge after reasonable inquiry, the Acquired Intellectual Property includes all Patents and Trademarks currently used by KOPIN (a) solely and exclusively (i) to test, modify, make, use, sell, have made, used and sold, import, reproduce, market, distribute, commercialize, support, maintain and correct the Solos Sports Products and (ii) to otherwise conduct KOPIN's business, as it is currently conducted, with respect to the Solos Sports Products and Whisper Technology, and (b) relating to the Whisper Technology. Other than as expressly set forth hereinabove and for the avoidance of doubt, the Acquired Intellectual Property *excludes* Display Intellectual Property, the Intellectual Property Owned by Others, the Other KOPIN Products Intellectual Property and KOPIN Know-How (each as defined below). **"Display Intellectual Property"** means Patents and Trademarks which are embedded in any KOPIN display, display drivers, integrated circuits, optics or display module. **"Intellectual Property Owned by Others"** means Patents and Trademarks which are owned or licensed by KOPIN Software Limited fka Intoware Ltd., Forth Dimension Displays, eMDT America Inc., NVIS, Inc. and any other KOPIN subsidiary (other than, for the avoidance of doubt, Patents and Trademarks owned by KOPIN Display Corporation and expressly referenced in the first sentence of this Section 6.7.3). **"Other KOPIN Products Intellectual Property"** means any Intellectual Property Rights, other than the Whisper Technology, used by KOPIN in the development, manufacture (by KOPIN or a Third Party), sale, marketing or distribution of its products other than the Solos Sports Products (**"Other KOPIN Products"**). **"KOPIN Know-How"** means Intellectual Property Rights of KOPIN to the extent not included in Other KOPIN Products Intellectual Property and

that are not Patents or Trademarks. With the exception of the Whisper Technology that is being licensed back to KOPIN under the Whisper License Agreement, the Acquired Intellectual Property does not include Patents and Trademarks currently used by KOPIN in Other KOPIN Products.

6.7.4 KOPIN has taken reasonable measures to protect the proprietary nature of each item of Acquired Intellectual Property owned by KOPIN, and to maintain in confidence all trade secrets and confidential information comprising a part thereof.

6.7.5 To KOPIN's knowledge and belief, KOPIN's business with respect to the Solos Products and Whisper Technology, as it is currently conducted, does not infringe or violate, or constitute a misappropriation of, any Intellectual Property Rights of any Third Party. Except as disclosed on Schedule 6, KOPIN has not received any complaint, claim or notice, or threat thereof in writing, of any of the foregoing, alleging any such infringement, violation or misappropriation. To KOPIN's knowledge, no person (including, without limitation, any current or former employee or consultant) is infringing, violating or misappropriating any of the Acquired Intellectual Property owned by KOPIN.

Section 6.8 Applicable Laws. KOPIN is conducting its business with respect to the Solos Products and Whisper Technology in compliance with each applicable Law, including, without limitation, each applicable export control law and regulation, except for any violations or defaults that, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect. KOPIN has not received any notice or communication from any Governmental Entity alleging noncompliance with any applicable Law.

Section 6.9 Public Disclosures As a public company, KOPIN has made certain disclosures relating to the Acquired Assets and Solos Smart Glasses pursuant to the U.S. Securities Exchange Act of 1934. For the purpose of any express or implied obligation of KOPIN not to omit to state a material fact necessary in order to make the statements contained herein or in the certificates delivered to Purchaser pursuant to Section 4.2 not misleading in light of the circumstances under which they were made, Purchaser shall be deemed to have been made aware of, and KOPIN shall be deemed to have disclosed to Purchaser, all such disclosures in KOPIN's Annual Report on Form 10-K for the year ended December 29, 2018 and Reports on Form 10-Q for the quarterly periods ended March 30, 2019 and June 29, 2019. For the avoidance of doubt, no such disclosures shall otherwise qualify KOPIN's representations and warranties in this Article VI or in the certificates delivered to Purchaser pursuant to Section 4.2 unless also disclosed explicitly herein or therein.

Section 6.10 No Other Representations or Warranties Except as expressly provided in this Article VI and the certificates delivered to Purchaser pursuant to Section 4.2, the Acquired Assets are being sold, transferred, assigned, conveyed and delivered "As Is", and KOPIN makes no other representations or warranties as to the Acquired Assets, including but not limited to any express or implied warranties of merchantability or fitness or

sufficiency for a particular use or purpose intended or as to non-infringement, and even if KOPIN has been advised of same.

ARTICLE VII COVENANTS OF THE PURCHASER AND KOPIN

Section 7.1 Employees.

7.1.1 Purchaser will immediately after the Closing, provide a written offer of employment to all of those current KOPIN employees listed on Schedule 7.1 hereof ("Solos and Whisper Personnel") that Purchaser intends to employ with employment beginning no later than September 30, 2019 or the following Business Day (the "Employee Termination Date"). In the event that Purchaser does not offer employment to all of the Solos and Whisper Personnel, Purchaser shall pay to KOPIN, no later than five (5) Business Days after the Employment Termination Date, cash in an amount equal to the base salary and any and all other benefits

of all such Solos and Whisper Personnel actually paid by KOPIN during the period beginning July 1, 2019 and ending on the Employment Termination Date who were not offered employment. KOPIN hereby consents to the hiring of any Solos and Whisper Personnel by Purchaser, waives, with respect to the employment by Purchaser of such employees, any claims or rights related to the Acquired Intellectual Property KOPIN may have against Purchaser or any such employee under any non-competition or employment agreement which would otherwise restrict such employee's ability and right to perform his job as an employee of Purchaser and consents to the Solos and Whisper Personnels' use of know-how related to the Acquired Assets in the performance of the Solos and Whisper Personnels' jobs as employees of Purchaser and retained in the unaided memories of such Personnel (except as aided by reference to the Acquired Assets). Once employment with Purchaser of any Solos and Whisper Personnel to whom such offer of employment has been made shall commence, any employee-related obligations to such employees shall become Purchaser's sole and exclusive responsibility (except for payment of final wages, reimbursement of expenses, employment taxes or other similar amounts accrued during such employees' employment with KOPIN, which shall remain the obligations of KOPIN). Nothing in this Agreement will prevent KOPIN from terminating an employee listed on Schedule 7.1 at any time.

7.1.2 KOPIN will continue to employ all Solos and Whisper Personnel at their same respective levels of compensation and benefits up until the Employee Termination Date (subject to its right to terminate earlier including pursuant to KOPIN's Employment Handbook and the rules thereunder and Purchaser's right to offer employment to such Personnel pursuant to Section 7.1.1).

7.1.3 To the extent that any Governmental Entity is reimbursing some or all of the compensation of any Solos and Whisper Personnel and such reimbursement is paid to Purchaser, the Purchaser will return to KOPIN any amounts Purchaser receives which are related to the period prior to Employee Termination Date. To the extent KOPIN receives any reimbursement for compensation for any Solos and Whisper Personnel from any Governmental Entity which relates to the period after the Employee Termination Date it will pay such amount to the Purchaser.

7.1.4 If any Solos and Whisper Personnel who are offered employment by Purchaser pursuant to Section 7.1.1 decline the offer of employment by Purchaser for any reason, Purchaser shall not otherwise employ such person(s) for a period of nine (9) months following the Closing Date without reimbursing KOPIN in full for the actual separation costs incurred by KOPIN in connection with the termination of such person(s) employment.

Section 7.2 Noncompetition.

7.2.1 For a period of [***] ([***) years after the Closing Date, KOPIN shall not market or sell any finished or substantially finished smart-glasses (meaning completed or substantially

completed product packaged for and ready to use by consumers) designed for consumer use which compete directly with any Solos Product as described on **Exhibit F. Section 7.2.1** shall terminate upon the merger with or sale or transfers of substantially all of KOPIN's assets to a Third Party.

7.2.2 In the event that any court determines that the duration or the geographic scope, or both, of the noncompetition provision set forth in **Section 7.2.1** are unreasonable and that such provision is to that extent unenforceable, the Parties agree that the provision shall remain in full force and effect for the greatest time period and in the greatest area that would not render it unenforceable.

ARTICLE VIII CONDITIONS TO CLOSING

Section 8.1 Conditions to the Obligations of KOPIN and Purchaser: The respective obligations of the Parties to consummate the Contemplated Transactions and effect the Closing are subject to the satisfaction, at or prior to the Closing, of each of the following conditions, unless waived by each Party in writing prior to the Closing:

(a) no Order shall be in effect, or be pending or threatened by any Governmental Entity, and no Law shall have been enacted, issued, promulgated or otherwise enforced, that, in either case, has the effect of prohibiting, enjoining or restraining the Contemplated Transactions, or otherwise making the consummation of the Contemplated Transactions illegal; and

(b) no Legal Proceeding shall have been instituted or threatened against any Party seeking to restrain or prohibit, or to obtain damages with respect to, the consummation of the Contemplated Transactions; provided, however, that this condition may not be invoked by a Party if any such Legal Proceeding was initiated by such Party or such Party's Affiliates or Representatives.

Section 8.2 Conditions to the Obligations of Purchaser: The obligation of Purchaser to consummate the Contemplated Transactions and effect the Closing are subject to the

satisfaction, at or prior to the Closing, of each of the following conditions, unless waived by Purchaser in writing at or prior to the Closing:

(a) the representations and warranties of KOPIN contained in this Agreement shall be true and correct in all respects (in the case of any representation or warranty qualified by materiality, Material Adverse Effect or any similar qualification) or in all material respects (in the case of any representation or warranty not qualified by materiality, Material Adverse

Effect or similar qualification) on and as of the Closing Date (except those representations and warranties that address matters only as of a specified date, the accuracy of which shall be determined as of that specified date in all respects);

(b) KOPIN shall have performed, satisfied and complied in all material respects with each of the covenants, agreements and obligations required to be performed, satisfied and complied with by KOPIN on or prior to the Closing Date under this Agreement and each other Transaction Document;

(c) KOPIN shall have delivered, or caused to be delivered, all documents and agreements and shall have taken such other actions as required pursuant to Section 4.2 of this Agreement; and

(d) any and all material Encumbrances relating to the Acquired Assets (other than the Permitted Encumbrances) shall have been released in full.

Section 8.3 Conditions to the Obligations of KOPIN. The obligation of KOPIN to consummate the Contemplated Transactions and effect the Closing are subject to the satisfaction, at or prior to the Closing, of each of the following conditions, unless waived by Purchaser in writing at or prior to the Closing:

(a) the representations and warranties of Purchaser contained in this Agreement shall be true and correct in all respects (in the case of any representation or warranty qualified by materiality, material adverse effect or any similar qualification) or in all material respects (in the case of any representation or warranty not qualified by materiality, material adverse effect or similar qualification) on and as of the Closing Date (except those representations and warranties that address matters only as of a specified date, the accuracy of which shall be determined as of that specified date in all respects);

(b) Purchaser shall have performed, satisfied and complied in all material respects with each of the covenants, agreements and obligations required to be performed, satisfied and complied with by Purchaser on or prior to the Closing Date under this Agreement and each other Transaction Document;

(c) Purchaser shall have delivered, or caused to be delivered, all documents and agreements and shall have taken such other actions as required pursuant to Section 4.2 of this Agreement; and

(d) Purchaser shall have received not less than One and One-Half Million US Dollars (US\$1,500,000) of gross cash proceeds in connection with the offer and sale of shares of its capital stock.

ARTICLE IX

INDEMNITY

Section 9.1 Survival Subject to the limitations and other provisions contained in this Agreement, the representations and warranties of the Parties shall survive for a period eighteen (18) months from and after the Closing Date; provided, however, that (i) the representations and warranties set forth in Sections 5.1, 5.2, 6.1, 6.2 and 6.6 shall survive the Closing without limitation (the "**Fundamental Representations**") and (ii) the representations and warranties set forth in Sections 6.7.1, 6.7.2, 6.7.4 and 6.7.5 shall survive for a period twenty-four (24) months from and after the Closing Date. All of the covenants, agreements and obligations of the Parties contained in this Agreement shall survive until fully performed or fulfilled, unless non-compliance with such covenants, agreements or obligations is waived in writing by the Party or Parties entitled to such performance. Notwithstanding anything herein to the contrary, any claim relating to a breach of a representation, warranty or covenant asserted in writing on or before the applicable expiration period set forth in this Section 9.1, if any, shall survive until resolved or judicially determined. The Parties acknowledge and agree that with respect to any claim that any Party may have against any other Party that is permitted pursuant to the terms of this Agreement, the survival periods set forth and agreed to in this Section 9.1 shall govern when any such claim may be brought and shall replace and supersede any statute of limitations that may otherwise be applicable.

Section 9.2 Indemnification by KOPIN On the terms set forth herein, KOPIN shall, indemnify, defend and hold the Purchaser Indemnitees harmless for, from and against any and all Losses imposed upon or incurred by the Purchaser Indemnitees (or any one of them), directly or indirectly, arising out of, resulting from or in connection with any and all of the following: (a) any material inaccuracy in or breach of any of the representations and warranties made by KOPIN in this Agreement or any other Transaction Document; (b) any Third Party Claim (as defined below) alleging facts that, if true, would constitute a material inaccuracy in or breach of any of the Fundamental Representations; (c) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by KOPIN pursuant to this Agreement; (d) all Retained Liabilities; and (e) the Legal Proceeding identified on **Schedule 6**.

Section 9.3 Indemnification by Purchaser On the terms set forth herein, Purchaser agrees to indemnify, defend and hold the KOPIN Indemnitees harmless for, from and against any and all Losses imposed upon or incurred by the KOPIN Indemnitees (or any one of them), directly or indirectly, arising out of, resulting from or in connection with any and all of the following: (a) any material inaccuracy in or breach of any of the representations and

warranties made by Purchaser in this Agreement or any other Transaction Document; (b) any Third Party Claim alleging facts that, if true, would constitute a material inaccuracy in or breach of any of the Fundamental Representations; and (c) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by Purchaser pursuant to this Agreement; (c) sales of Solos Products and products based on or incorporating the Whisper Technology by Purchaser on or after the Closing Date; and (d) infringement or alleged infringement of Third Party Intellectual Property Rights by Solos Products, the Whisper Technology or any of the Acquired Assets if the circumstances giving rise to such infringement or alleged infringement do not constitute a breach of KOPIN's representations and warranties set forth in Section 6.7.

Section 9.4 Certain Limitations Notwithstanding any provisions of this Article IX to the contrary, and except with respect to any Loss incurred in connection with or as a result of fraud, intentional misrepresentation or willful misconduct, the indemnification obligations of the Parties set forth in Section 9.2 and Section 9.3, respectively, shall be subject to the following limitations:

(a) No (i) Purchaser Indemnitee shall be entitled to recovery for Losses under Section 9.2(a) until the aggregate amount of Losses thereunder exceeds an amount equal to Twenty-Five Thousand US Dollars (US\$25,000), at which time the Purchaser Indemnitees shall, subject to the other limitations set forth in this Section 9.4, be entitled to recover all such Losses; and (ii) KOPIN Indemnitee shall be entitled to recovery for Losses under Section 9.3(a) until the aggregate amount of Losses thereunder exceeds an amount equal to Twenty-Five Thousand US Dollars (US\$25,000), at which time the KOPIN Indemnitees shall, subject to the other limitations set forth in this Section 9.4, be entitled to recover all such Losses.

(b) The maximum amount of Losses for which KOPIN shall be liable under Section 9.2 shall not exceed an amount equal to Three Hundred Thousand US Dollars (US\$300,000) plus the aggregate Purchaser Royalties paid to KOPIN (the "**Indemnification Cap**"); ~~provided, however,~~ that the amount of Losses for which KOPIN shall be liable under Section 9.2 with respect to the Legal Proceeding identified on Schedule 6 shall not be subject to such limitation.

(c) The maximum amount of Losses for which Purchaser shall be liable under Section 9.3 shall not exceed the Indemnification Cap.

(d) Any Liability for indemnification hereunder shall be determined without duplication of recovery by reason of the state of facts giving rise to such Liability constituting a breach of more than one representation, warranty, covenant or agreement or by reason of

a Party receiving an adjustment to the Purchase Price in accordance with the terms of this Agreement in connection with the facts giving rise to the right of indemnification.

(e) Payments by any Indemnifying Party to an Indemnified Party in respect of an indemnifiable Loss under this Article IX shall be (i) reduced by any insurance proceeds actually received from a Third Party insurer (net of reasonable costs incurred by such Indemnified Party to enforce payment from such third-party insurer) by such Indemnified Party with respect to such Loss; and (ii) reduced by indemnification, reimbursement, credits, rebates, refunds or other payments actually received by such Indemnified Party with respect to such Loss (net of reasonable costs incurred by such Indemnified Party to obtain such indemnification, reimbursement, credits, rebates, refunds or other payments).

Section 9.5 Third Party Claims.

(a) If an Indemnified Party receives notice of any actual, asserted or threatened claim made or brought by any Third Party with respect to which the Indemnifying Party is obligated to provide indemnification under this Agreement (a "**Third Party Claim**"), the Indemnified Party shall give the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than fifteen (15) days after receipt of such notice of such Third Party Claim (a "**Third Party Claim Notice**"). The failure of the Indemnified Party to give such Third Party Claim Notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party is materially prejudiced by reason of such failure. Such Third Party Claim Notice shall describe the Third Party Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party.

(b) The Indemnified Party, at the Indemnifying Party's sole cost and expense, shall control the defense of any such Third Party Claim with counsel selected by the Indemnified Party in its sole discretion. The Indemnifying Party shall have the right to participate in the defense of any Third Party Claim with counsel selected by it, subject to the Indemnified Party's right to control the defense thereof. The reasonable fees and disbursements of such counsel shall be at the expense of the Indemnifying Party. In connection with its defense of such Third Party Claim, the Indemnified Party shall be entitled to take any action as it may deem appropriate to avoid, dispute, defend, appeal or make counterclaims pertaining to any Third Party Claim, including, but not limited to, settling such Legal Proceeding on such terms as the Indemnified Party may deem appropriate; provided that such settlement is made in accordance with the remaining provisions of this Section 9.5. No action taken by the Indemnified Party in accordance with such defense and settlement of any Third Party Claim shall relieve the Indemnifying Party of its indemnification obligations herein provided with respect to any Losses resulting therefrom. Notwithstanding anything contained herein to the contrary, the Indemnified Party shall not

settle any Third Party Claim without the consent of the Indemnifying Party, which consent shall not be unreasonably withheld, conditioned or delayed. In no event shall the Indemnified Party be required to agree to the entry of any judgment or enter into any settlement unless such judgment or settlement includes as an unconditional term thereof the giving of a release from all liability with respect to all claims by each claimant or plaintiff to each Indemnified Party that is the subject of such claims and does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of an Indemnified Party.

(c) The Parties shall cooperate with each other in all reasonable respects in connection with the defense of any Third Party Claim, including making available records relating to such Third Party Claim and furnishing, without expense (other than reimbursement of actual out-of-pocket expenses) to the defending party, employees of the

non-defending party as may be reasonably necessary for the preparation of the defense of such Third Party Claim.

Section 9.7 Payment. Once a Loss is agreed to and/or accepted by the Indemnifying Party or finally adjudicated to be payable pursuant to this Article IX (a "**Final Claim Resolution**"), the Indemnifying Party shall, subject to Section 9.8, satisfy its obligations within five (5) Business Days of such agreement, acceptance and/or final adjudication by wire transfer of immediately available funds to an account designated in writing by the Indemnified Party. The Parties hereto agree that should an Indemnifying Party not make full payment of any its obligations under this Article IX within five (5) Business Days, any amounts payable shall accrue interest from and including the date of agreement of the Indemnifying Party or final, non-appealable adjudication to the date such payment has been made at a rate per annum equal to the "prime rate" as published in The Wall Street Journal, Eastern Edition, in effect on the date such payment was required to be made through the date of payment (calculated daily on the basis of a year of three hundred and sixty five (365) days and the actual number of days elapsed).

Section 9.8 Tax Treatment. All indemnification payments made under this Agreement shall be treated by the Parties as an adjustment to the Purchase Price for Tax purposes, unless otherwise required by Law.

Section 9.9 Exclusive Remedies Subject to the rights of the Parties set forth in Section 3.5, Section 9.10 and Article X, the Parties acknowledge and agree that their sole and exclusive remedy with respect to any and all claims (other than claims arising from fraud, intentional misrepresentation or willful misconduct on the part of a Party hereto in connection with the Contemplated Transactions) for any breach of any representation, warranty, covenant, agreement or obligation set forth herein or otherwise relating to the subject matter of this Agreement, shall be pursuant to the indemnification provisions set forth in this Article IX. Notwithstanding the foregoing, nothing in this Section 9.9 shall limit any Person's right to

seek and obtain any equitable relief to which any Person shall be entitled or to seek any remedy (or limit the amount of such remedy) resulting from any Party's fraud, intentional misrepresentation or willful misconduct.

Section 9.10 Special Remedy. Notwithstanding anything to the contrary set forth herein, Purchaser's sole and exclusive remedy with respect to any breach by KOPIN of its representations and warranties set forth in Section 6.7.3 shall be that KOPIN shall assign to Purchaser, for no further consideration, all Patents or Trademarks that were not included in the Acquired Intellectual Property that give rise to such breach (or, if such Patents or Trademarks are otherwise used by KOPIN in the conduct KOPIN's business, KOPIN shall grant to Purchaser a non-exclusive, limited, fully paid-up, royalty-free, worldwide license to such Patents or Trademarks).

ARTICLE X POST CLOSING CONDITIONS

Section 10.1 Reversion of Acquired Assets. In the event that a Reversion Option Trigger (as defined below) shall occur during the period beginning on the Closing Date and ending at the Reversion Option Termination Time (as defined below), then KOPIN shall have the right, in its sole and complete discretion, to require a Reversion Option Transaction (as defined below) (such right, the **'Reversion Option'**). **'Reversion Option Trigger'** shall mean the voluntary or involuntary dissolution or winding up of the Purchaser and/or (Solos Cayman or Purchaser's then parent entity) (collectively, **'Solos'**) pursuant to the applicable dissolution procedures under applicable corporate law or merger or consolidation of Purchaser (except any merger or consolidation in which at least a majority by voting power of Solos continues to represent at least a majority of voting power of the resulting or surviving entity) or the sale, lease, transfer, exclusive license by Solos or any subsidiary thereof of all or substantially all of the assets of Solos and its subsidiaries taken as a whole or if Solos shall permanently cease active operations of its business and not be actively pursuing a sale, lease, transfer, exclusive license by Solos or any subsidiary thereof of all or substantially all of the assets of Solos and its subsidiaries taken as a whole, in any such case pursuant to which the holders of shares of capital stock then outstanding are paid by reason of their ownership thereof less than Seven Million Five Hundred Thousand US Dollars (US\$7,500,000) in the aggregate; or if Solos does not receive at least Two Million US Dollars (US\$2,000,000) in cash revenue for the sale of Solos Products by January 1, 2023 (for the avoidance of doubt, such revenue-based Reversion Option Trigger shall be applicable only if the Reversion Option Termination Time has not occurred prior to January 1, 2023). **'Reversion Option Termination Time'** shall mean the moment immediately prior to the earlier to occur of (i) the sale of capital stock of the Solos in a bona fide equity financing of Solos in which the gross proceeds thereof, when added to the gross proceeds of all prior bona fide equity

financings of Solos, equals or exceeds Seven Million Five Hundred Thousand US Dollars (US\$7,500,000) and (ii) the merger of KOPIN with or into any Third Party or KOPIN's sale of all or substantially all of its assets (a **KOPIN Transaction**) and if the KOPIN Transaction fails to include the transfer and assignment to such Third Party of all Solos Shares and an agreement by such Third Party to become party to, and be bound by, the terms and provisions of this Agreement in the same manner KOPIN is bound. For the avoidance of doubt, the Reversion Option shall terminate upon the Reversion Option Termination Time and, from and after the Reversion Option Termination Time, KOPIN shall not have any right to require a Reversion Option Transaction. **"Reversion Option Transaction"** shall mean a transaction in which KOPIN shall sell to Solos, and Solos shall purchase from KOPIN, all Solos Shares then held by KOPIN free and clear of all material Encumbrances and, in consideration therefor, Purchaser shall, transfer, assign, convey and deliver the Acquired Assets back to KOPIN, free and clear of all material Encumbrances other than Permitted Encumbrances.

Section 10.2 Exercise of Right. To exercise the Reversion Option, KOPIN must deliver written notice to Solos of KOPIN's intention to exercise such right. Following delivery of such notice, each of Solos and KOPIN agrees to execute and deliver all documentation and take such other action in support of the Reversion Option Transaction as shall reasonably be requested by either Party in order to carry out the terms and provision of Section 10.1, including, without limitation, executing and delivering instruments of conveyance and transfer, and any purchase agreement, consent, waiver, governmental filing, and any similar or related documents. In the event that a Party is unable for any reason whatsoever

to secure the other Party's signature to any document reasonably necessary or appropriate for any of the foregoing purposes, such other Party hereby irrevocably designates and appoints such Party and its duly authorized officers and agents as its agents and attorneys-in-fact to act for it and on its behalf, but only for the purpose of executing and filing any such document and doing all other lawfully permitted acts to accomplish the foregoing purposes with the same legal force and effect as if executed by or on behalf of such other Party.

Section 10.3 Transfer Restriction. Until the Reversion Option Termination Time, KOPIN agrees not to transfer or cause any material Encumbrance to be placed upon (i) any Solos Shares issued to KOPIN pursuant to the Share Purchase Agreement (including, without limitation, the Solos Shares initially issued thereunder and any Solos Shares issued pursuant to the antidilution provisions thereof) and (ii) any Solos Shares issued as a dividend thereon or as a result of any reclassification or exchange thereof, except in connection with a KOPIN Transaction which includes the transfer and assignment of all such Solos Shares to a Third Party and an agreement by such Third Party to become party to, and be bound by, the terms and provisions of this Agreement in the same manner KOPIN is bound.

ARTICLE XI
CONFIDENTIAL INFORMATION

Section 11.1 Confidential Information

11.1.1 Confidentiality. Except as required by Law, KOPIN shall, and shall instruct its Representatives to, (a) treat and hold as confidential and proprietary all information concerning the Acquired Assets, the Assumed Liabilities, the business related thereto, Purchaser and its Affiliates and their respective businesses that is not or does not become (through no fault of KOPIN or its Representatives) generally available to the public (collectively, the "Purchaser Confidential Information"), (b) refrain from using any Purchaser Confidential Information except as otherwise expressly contemplated by this Agreement, and (c) promptly deliver to Purchaser all tangible embodiments (and all copies) of any Purchaser Confidential Information that are in the possession or under the reasonable control of KOPIN or any of its Representatives as of the Closing Date provided, however, that subsection (c) will not require KOPIN to deliver any copies of the Purchaser Confidential Information that (i) are maintained as archive copies on KOPIN's disaster recovery or information technology backup systems, (ii) are required to comply with Law, (iii) are required for KOPIN to satisfy its obligations hereunder or (iv) are useful or necessary for KOPIN to exercise its rights under the Whisper License Agreement. Notwithstanding anything to the contrary in this Agreement, KOPIN will continue to be bound by the terms and conditions of this Section 11.1.1 with respect to any Purchaser Confidential Information that is not so delivered. In the event that KOPIN or any of its Representatives is requested or required (pursuant to written or oral question or request for information or documents in any Legal Proceeding, interrogatory, subpoena, civil investigative demand or similar process) to disclose any Purchaser Confidential Information, such Person will promptly notify Purchaser of the request or requirement so

that Purchaser may seek an appropriate protective order or waive compliance with the provisions of this Section 11.1.1. If, in the absence of a protective order or the receipt of a waiver hereunder, KOPIN (or such other Person) is, on the reasonable advice of counsel, compelled to disclose any Purchaser Confidential Information to any tribunal, KOPIN (or such other Person, as applicable) may disclose that portion of the Purchaser Confidential Information that is required to be disclosed to the tribunal; provided, however, that the disclosing Person will use all reasonable best efforts to obtain, at the reasonable request of Purchaser, an order or other assurance that confidential treatment will be accorded to such portion of the Purchaser Confidential Information required to be disclosed as Purchaser will designate.

11.1.2 Agreement. Purchaser shall be permitted to disclose the existence of this Agreement only to investors, potential investors, customers and targeted customers who have entered into an industry standard non-disclosure agreement with Purchaser. Except as provided in

the foregoing sentence or required by applicable Law, neither Party will disclose the existence of this Agreement or the terms and conditions hereof to any Third Party without the expressed written consent of the other Party except as otherwise required by Law.

ARTICLE XII MISCELLANEOUS

Section 12.1 Entire Agreement. This Agreement (including the Schedules and Exhibits hereto and all other Transaction Documents) constitutes the final agreement between the Parties and the complete and exclusive expression of the Parties' agreement on the matters contained herein. All prior and contemporaneous negotiations, agreements, understandings, representations and warranties, both written and oral, between the Parties on the matters contained herein are expressly merged into and superseded by this Agreement.

Section 12.2 Notices. All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by telecopy, electronic transmission or other similar means (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective Parties at the following addresses (or at such other address for a Party as shall be specified in a notice given in accordance with this Section 12.2):

Purchaser shall send notices to KOPIN as follows:

Mr. Richard A. Sneider Chief Financial Officer KOPIN Corporation

125 North Rd.
Westborough, MA 01581
Tel: (508)-870-5959
[E-mail: Richard_sneider@KOPIN.com](mailto:Richard_sneider@KOPIN.com)

With a copy to (which copy shall not constitute notice):

John H. Chu, Esq.
Chu, Ring & Hazel LLP
241 A Street

Boston, MA 02210
Tel: (617)-443-9800
Fax: (617)-443-9840
[E-mail: jchu@chu-ring.com](mailto:jchu@chu-ring.com)

KOPIN shall send notices to Purchaser as follows:

Mr. Kenny Cheung
President
Solos Technology Limited
2/F, Unit 211, 2/F., Photonics Centre
No. 2 Science Park East Avenue
Hong Kong Science Park
Shatin, N.T
Hong Kong
Tel:
E-mail:

With a copy to:

Peter K. Osborn, Esq.
The Moulton Law Group
3 Main Street, Suite 214
PO Box 700
Burlington, VT 05402
Tel: (802)-660-2000
Fax: (802)-391-0305
[E-mail: posborn@moultonlg.com](mailto:posborn@moultonlg.com)

Section 12.3 Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future Law (a) such provision will be fully severable; (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof; (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (d) in lieu of such

illegal, invalid or unenforceable provision, the Parties shall negotiate in good faith to modify this Agreement so as to maintain the original intent of the Parties as closely as possible in an acceptable manner to the end that the Contemplated Transactions are fulfilled to the fullest extent possible.

Section 12.4 Third Party Beneficiaries This Agreement is for the sole benefit of the Parties hereto and their respective successors and permitted assigns, and there shall be no Third Party beneficiary hereof, other than and excluding Section 9.2 and Section 9.3, which will be for the benefit of the Persons set forth therein, and any such Person will have the rights provided for therein.

Section 12.5 Assignment. No Party may assign any of its rights or delegate any of its obligations hereunder without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed. Any purported assignment or delegation in violation of this Section 12.5 shall be null and void. Notwithstanding the above, either Party may assign this Agreement and its rights and obligations under the Transaction Documents in connection with the sale of all or substantially all of its assets or all of its outstanding equity, subject in the case of Purchaser to Section 10.1(a). Subject to the foregoing, this Agreement will be binding upon, inure to the benefit of and be enforceable by the Parties and their respective successors and permitted assigns.

Section 12.6 Amendments and Waivers. This Agreement may not be amended, supplemented or modified except by an instrument in writing signed by each Party. Any term or condition of this Agreement may be waived at any time by the Party that is entitled to the benefit thereof, but no such waiver shall be effective, unless set forth in a written instrument duly executed by or on behalf of the Party waiving such term or condition. No waiver by any Party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion.

Section 12.7 Governing Law This Agreement shall be governed by and construed in accordance with the internal Laws of the Commonwealth of Massachusetts without giving effect to any choice or conflict of law provision or rule (whether of the Commonwealth of Massachusetts or any other jurisdiction) that would cause the application of Laws of any jurisdiction other than those of the Commonwealth of Massachusetts. The Parties specifically disclaim application of the United Nations Convention on Contracts for the International Sale of Goods. The Parties hereby further consent to the exclusive jurisdiction of the federal or state courts sitting in Suffolk County, Massachusetts in connection with the judicial resolution of any matters.

Section 12.8 Dispute Resolution Purchaser and KOPIN must first attempt to settle any claim or controversy arising out of this Agreement or the Contemplated Transactions ("**Disputes**") through consultation and negotiation in good faith and spirit of mutual cooperation. The Disputes shall be resolved by the following process. The Dispute shall be submitted in writing to the other Party for resolution. If the Parties are unable to resolve the Dispute within thirty (30) days, such Disputes shall be resolved by a confidential arbitration by the American Arbitration Association ("**AAA**") under the commercial

arbitration rules then in effect for the AAA, except as provided herein. The arbitration shall be held in Suffolk County, Massachusetts, under the auspices of the AAA. The number of arbitrators shall be three (3). KOPIN shall choose one (1) arbitrator and Purchaser shall choose one (1) arbitrator within thirty (30) days of receipt of the notice of intent to arbitrate. Within sixty (60) days of receipt of the notice of intent to arbitrate, the two (2) arbitrators shall choose a neutral third arbitrator who shall act as chairman. If no arbitrator is appointed within the times herein provided, or any extension of time which is mutually agreed upon, the AAA shall make such appointment within thirty (30) days of such failure. The judgment on such award may be entered in any court having jurisdiction thereof. Nothing herein prevents either Party from resorting directly to judicial proceedings if the Dispute is with respect to Confidential Information or Intellectual Property Rights, or interim relief from a court is necessary to prevent serious and irreparable injury to a Party or others. Neither Party's performance under this Agreement shall be suspended during the pendency of any dispute, except in the case of Purchaser's failure to pay any amounts due under this Agreement which case KOPIN shall have the right to suspend its performance hereunder pending a resolution thereof. Except as otherwise required by Law, the Parties and the arbitrator will maintain as confidential all information or documents obtained during the arbitration process, including the resolution of the dispute.

Section 12.9 Specific Performance. The Parties hereby agree that irreparable damage could occur in the event any provision of this Agreement was not performed in accordance with the terms hereof, that the remedies available to the Parties at Law alone may be an inadequate remedy for such breach, and that the Parties shall be entitled to seek equitable remedies, including injunctive relief to enforce the covenants contained herein and specific performance of the terms hereof, without the requirement of proving any actual damages or posting any bond, in addition to any other right or remedy provided for in this Agreement or otherwise available to the Parties (subject to the terms of this Agreement).

Section 12.10 Expenses. Except as may be otherwise specified in this Agreement or any other Transaction Document, all Transaction Expenses incurred in connection with this Agreement and the consummation of the Contemplated Transactions shall be paid by the Person incurring such costs and expenses, whether or not the Closing shall have occurred.

Section 12.11 Counterparts. This Agreement and all other Transaction Documents may be executed in counterparts, each of which will be deemed an original, but all of which together will be deemed to be one and the same agreement. Counterparts may be delivered via facsimile, electronic mail (including PDF or any electronic signature complying with the U.S. federal ESIGN Act of 2000, e.g., www.docusign.com) or other transmission method, and any counterparts so delivered will be deemed to be duly and validly delivered and valid and effective for all purposes, and shall constitute legally enforceable original

Section 12.12 Headings and Interpretation. The headings in this Agreement are for convenience and do not form a part of this Agreement.

Section 12.13 Force Majeure. No Party to this Agreement shall be liable to the other Party for any failure or delay in fulfilling an obligation hereunder (except with respect to

any payments due hereunder), if said failure or delay is attributable to circumstances beyond its reasonable control. Such causes may include, but are not limited to, fire, natural disasters or acts of God, power failure, terrorism, labor dispute or government measure ("Force Majeure"). Any Party so delayed in its performance shall immediately notify the Party to whom performance is due by written notice and describe at a reasonable level of detail the circumstances causing such delay. The Parties agree that the deadline for fulfilling the obligation in question shall be extended for a period of time equal to that of the continuance of the Force Majeure.

Section 12.15 Public Announcement Unless otherwise required by applicable Law (based upon the reasonable advice of counsel), no Party to this Agreement, nor any of their Affiliates or Representatives, shall make any public announcements with respect to this Agreement or the Contemplated Transactions or otherwise communicate with any news media without the prior written consent of the other Party (which consent shall not be unreasonably withheld or delayed), and the Parties shall cooperate as to the timing and contents of any such announcement.

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IN WITNESS WHEREOF, the undersigned have duly executed this Asset Purchase Agreement dated and effective as of the date first written above.

KOPIN CORPORATION

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

KOPIN DISPLAY CORPORATION

By: /s/ Richard A. Sneider
Name: Richard A. Sneider
Title: President

SOLOS TECHNOLOGY LIMITED

By: /s/ Wai Kuen Kenny Cheung
Name: Wai Kuen Kenny Cheung
Title: Director

List of Omitted Schedules

Schedule 1 – Acquired Assets

Schedule 1.A - Solos Products and Whisper Technology Equipment

Schedule 1.C-1 - Solos Patents

Schedule 1.C-2 - Whisper Technology Patents

Schedule 1.D – Trademarks and Websites

Schedule 1.E - Acquired Contracts

Schedule 1.E-1 - Solos Air POs

Schedule 2 - Whisper Technology

Schedule 4.2.1 - Other Conveyance Instruments

Schedule 6 - KOPIN Disclosure Schedule

Schedule 7.1 - Solos and Whisper Personnel

Exhibit A - Assignment and Assumption Agreement

Exhibit B - Solos Services Agreement

Exhibit C - KOPIN Services Agreement

Exhibit D - Whisper License Agreement

Exhibit E - Share Purchase Agreement

Exhibit F - Solos AirGo

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement Nos. 333-46613, 333-92395, 333-49890, 333-73208, 333-98285, 333-113614, 333-115342, 333-150258, 333-173066, 333-190524, 333-217070, 333-219870, and 333-225472 on Form S-8, and Registration Statement No. 333-228549 on Form S-3 of Kopin Corporation of our report dated March 11, 2020, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of Kopin Corporation, appearing in this Annual Report on Form 10-K of Kopin Corporation for the year ended December 28, 2019. Our report dated March 11, 2020, on the effectiveness of internal control over financial reporting as of December 28, 2019, expressed an opinion that Kopin Corporation had not maintained effective internal control over financial reporting as of December 28, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

/s/ RSM US LLP

Stamford, Connecticut
March 11, 2020

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements Nos. 333-46613, 333-92395, 333-49890, 333-73208, 333-98285, 333-113614, 333-115342, 333-150258, 333-173066, 333-190524, 333-217070, 333-219870, and 333-225472 on Form S-8, and Registration Statement No. 333-228549 on Form S-3, of our report dated March 13, 2019 (November 7, 2019, as to the effects of the correction of previously issued financial statements discussed in Note 1), relating to the financial statements of Kopin Corporation appearing in this Annual Report on Form 10-K of Kopin Corporation for the year ended December 28, 2019.

/s/ Deloitte & Touche LLP

Boston, Massachusetts
March 11, 2020

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

I, John C.C. Fan, certify that:

1. I have reviewed the annual report on Form 10-K for the period ended December 28, 2019, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 11, 2020

/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, certify that:

1. I have reviewed the annual report on Form 10-K for the period ended December 28, 2019, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 11, 2020

/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 fiscal year ended December 28, 2019 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 11, 2020

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 fiscal year ended December 28, 2019 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 11, 2020

By: /s/ Richard A. Sneider

Richard A. Sneider
Chief Financial Officer

