

KOPIN CORP  
Form 10-Q  
November 05, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the Quarterly Period Ended September 26, 2009**

**OR**

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

**Commission file number 0-19882**

**KOPIN CORPORATION**

(Exact name of registrant as specified in its charter)

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<b>Delaware</b> State or other jurisdiction of  incorporation or organization	<b>04-2833935</b> (I.R.S. Employer  Identification No.)
<b>200 John Hancock Rd., Taunton, MA</b> (Address of principal executive offices)	<b>02780-1042</b> (Zip Code)
<b>Registrant's telephone number, including area code: (508) 824-6696</b>	

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

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

Class	Outstanding as of October 30, 2009
Common Stock, par value \$.01	66,265,045

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**Table of Contents****Part 1: FINANCIAL INFORMATION****Item 1: Condensed Consolidated Financial Statements****KOPIN CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	September 26, 2009	December 27, 2008
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 50,104,709	\$ 57,949,449
Marketable securities, at fair value	57,414,269	42,066,542
Accounts receivable, net of allowance of \$1,331,000 and \$664,000 in 2009 and 2008, respectively	18,545,514	14,394,306
Accounts receivable from unconsolidated affiliates, net of allowance of \$321,000 and \$507,000 in 2009 and 2008, respectively	2,584,891	2,814,447
Unbilled receivables	1,791,355	2,395,963
Inventory	15,537,285	13,269,486
Prepaid expenses and other current assets	3,460,760	1,366,968
Total current assets	149,438,783	134,257,161
Property, plant and equipment	20,803,370	19,359,874
Other assets	8,418,941	6,060,460
Total assets	\$ 178,661,094	\$ 159,677,495
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 9,788,836	\$ 7,744,005
Accounts payable to unconsolidated affiliates		992,990
Accrued payroll and expenses	3,025,597	2,304,210
Accrued warranty	1,600,000	1,250,000
Billings in excess of revenue earned	2,994,776	3,127,923
Other accrued liabilities	2,893,617	1,996,947
Total current liabilities	20,302,826	17,416,075
Asset retirement obligations	894,091	866,965
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$.01 per share: authorized, 3,000 shares; none issued		
Common stock, par value \$.01 per share: authorized, 120,000,000 shares; issued 73,576,799 shares in 2009 and 73,147,743 shares in 2008; outstanding 66,023,695 in 2009 and 68,257,748 in 2008	719,269	718,732
Additional paid-in capital	311,430,268	310,241,805
Treasury stock (5,661,879 and 3,615,480 shares in 2009 and 2008, respectively, at cost)	(19,852,316)	(14,552,865)
Accumulated other comprehensive income (loss)	2,957,602	(168,303)
Accumulated deficit	(141,868,426)	(157,757,433)
Total Kopin Corporation stockholders' equity	153,386,397	138,481,936

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Noncontrolling interest	4,077,780	2,912,519
Total stockholders' equity	157,464,177	141,394,455
Total liabilities and stockholders' equity	\$ 178,661,094	\$ 159,677,495

See notes to condensed consolidated financial statements

**Table of Contents****KOPIN CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 26, 2009</b>	<b>September 27, 2008</b>	<b>September 26, 2009</b>	<b>September 27, 2008</b>
<b>Revenues:</b>				
Net product revenues	\$ 30,638,292	\$ 29,340,077	\$ 77,377,650	\$ 80,507,309
Research and development revenues	1,340,698	1,368,455	4,306,331	5,205,865
	31,978,990	30,708,532	81,683,981	85,713,174
<b>Expenses:</b>				
Cost of product revenues	20,652,628	19,415,672	54,696,123	58,423,275
Research and development	3,556,440	4,067,830	10,493,879	12,854,308
Selling, general, and administration	3,495,619	4,006,345	10,506,051	12,904,325
	27,704,687	27,489,847	75,696,053	84,181,908
Income from operations	4,274,303	3,218,685	5,987,928	1,531,266
<b>Other income and expense:</b>				
Interest income	501,269	715,181	1,766,071	2,474,938
Other income and (expense)	15,424	(10,918)	225,614	63,812
Foreign currency (losses) gains	(889,643)	1,168,966	(757,060)	1,944,426
Gain on remeasurement of investment in KTC	599,328		599,328	
Gain (loss) on loans to KTC	1,187,937	(75,725)	1,187,937	(75,725)
Impairment of investment in Kenet		(1,990,645)		(2,690,645)
Other-than-temporary impairment on marketable debt securities		(462,350)	(926,630)	(462,350)
Gain on sale of patents	2,119,064		6,231,849	
	3,533,379	(655,491)	8,327,109	1,254,456
Income before provision for income taxes, equity earnings (losses) in unconsolidated affiliates and net loss (income) of noncontrolling interest	7,807,682	2,563,194	14,315,037	2,785,722
Tax provision	(162,000)	(390,000)	(798,000)	(809,000)
Income before equity earnings (losses) in unconsolidated affiliates and net loss (income) of noncontrolling interest	7,645,682	2,173,194	13,517,037	1,976,722
Equity earnings (losses) in unconsolidated affiliates	772,424	(439,736)	481,766	(605,637)
Net income	8,418,106	1,733,458	13,998,803	1,371,085
Net loss (income) attributable to the noncontrolling interest	100,779	(235,154)	116,492	(596,799)
Net income attributable to the controlling interest	8,518,885	1,498,304	14,115,295	774,286
<b>Net income per share</b>				
Basic	\$ 0.13	\$ 0.02	\$ 0.21	\$ 0.01
Diluted	\$ 0.13	\$ 0.02	\$ 0.21	\$ 0.01
<b>Weighted average number of common shares</b>				

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Basic	66,214,047	67,774,347	67,023,695	67,749,273
Diluted	67,028,547	68,528,182	67,567,258	68,002,211

See notes to condensed consolidated financial statements

**Table of Contents****KOPIN CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 26, 2009</b>	<b>September 27, 2008</b>	<b>September 26, 2009</b>	<b>September 27, 2008</b>
Net income	\$ 8,418,106	\$ 1,733,458	\$ 13,998,803	\$ 1,371,085
Foreign currency translation gain (loss)	1,407,822	(2,665,624)	1,226,542	(4,870,267)
Unrealized holding gain on marketable securities	2,411,910	221,229	3,698,847	323,454
Reclassifications of gains in net income	(1,293)	(16,718)	(228,535)	(20,819)
Comprehensive income (loss)	\$ 12,236,545	\$ (727,655)	\$ 18,695,657	\$ (3,196,547)
Comprehensive income attributable to the noncontrolling interest	1,201,695	345,952	1,256,927	464,919
Comprehensive income (loss) attributable to Kopin Corporation	\$ 13,438,240	\$ (381,703)	\$ 19,952,584	\$ (2,731,628)

See notes to condensed consolidated financial statements



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## KOPIN CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income(loss)	Accumulated Deficit	Total Kopin Corporation Stockholders Equity	Noncontrolling interest	Total Stockholders Equity
	Shares	Amount							
<b>Balance December 29, 2007</b>	<b>71,357,464</b>	<b>\$ 713,574</b>	<b>\$ 307,900,357</b>	<b>\$ (14,552,865)</b>	<b>\$ 3,767,256</b>	<b>\$ (160,343,913)</b>	<b>\$ 137,484,409</b>	<b>\$ 3,549,369</b>	<b>\$ 141,033,778</b>
Exercise of stock options	44,053	440	131,045				131,485		131,485
Stock based compensation expense			1,725,811				1,725,811		1,725,811
Vesting of restricted stock	23,500	235	(235)						
Net unrealized holding gain on marketable securities					302,633		302,633		302,633
Foreign currency translation adjustments					(3,808,549)		(3,808,549)	(1,061,719)	(4,870,268)
Restricted stock for tax withholding obligations	(12,943)	(129)	(35,205)				(35,334)		(35,334)
Stock option tender offer			(178,737)				(178,737)		(178,737)
Net income						774,286	774,286	596,799	1,371,085
<b>Balance September 27, 2008</b>	<b>71,412,074</b>	<b>\$ 714,120</b>	<b>\$ 309,543,036</b>	<b>\$ (14,552,865)</b>	<b>\$ 261,340</b>	<b>\$ (159,569,627)</b>	<b>\$ 136,396,004</b>	<b>\$ 3,084,449</b>	<b>\$ 139,480,453</b>
<b>Balance December 27, 2008</b>	<b>71,873,228</b>	<b>\$ 718,732</b>	<b>\$ 310,241,805</b>	<b>\$ (14,552,865)</b>	<b>\$ (168,303)</b>	<b>\$ (157,757,433)</b>	<b>\$ 138,481,936</b>	<b>\$ 2,912,519</b>	<b>\$ 141,394,455</b>
Exercise of stock options	5,125	51	19,168				19,219		19,219
Vesting of restricted stock	104,000	1,040	(1,040)						
Stock based compensation expense.			1,530,252				1,530,252		1,530,252
Net unrealized holding gain on marketable					3,448,085		3,448,085		3,448,085

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securities									
Foreign currency translation adjustments			959,156		959,156		267,386		1,226,542
Cumulative effect adjustment as of March 29, 2009 related to non credit-related losses on investments recorded in operations			(1,773,712)		1,773,712				
Accretion of securities with non credit-related impairment losses, not expected to be sold			492,376		492,376				492,376
Acquisition of KTC equity interest		(259,739)			(259,739)		1,014,367		754,628
Restricted stock for tax withholding obligations	(55,429)	(554)	(100,178)			(100,732)			(100,732)
Treasury stock purchase			(5,299,451)		(5,299,451)				(5,299,451)
Net income					14,115,295		14,115,295	(116,492)	13,998,803
<b>Balance September 26, 2009</b>	<b>71,926,925</b>	<b>\$ 719,269</b>	<b>\$ 311,430,268</b>	<b>\$ (19,852,316)</b>	<b>\$ 2,957,602</b>	<b>\$ (141,868,426)</b>	<b>\$ 153,386,397</b>	<b>\$ 4,077,780</b>	<b>\$ 157,464,177</b>

See notes to condensed consolidated financial statements.

**Table of Contents****KOPIN CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 26, 2009</b>	<b>September 27, 2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,998,803	\$ 1,371,085
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
Depreciation	4,518,354	3,956,945
Amortization of premium on marketable debt securities	(241,751)	126,536
Stock-based compensation	1,530,252	1,725,811
Equity (earnings) losses in unconsolidated affiliate	(481,766)	605,637
Impairment on marketable debt securities	926,630	462,350
Impairment on Kenet		2,690,645
(Gain) loss on loans to KTC	(1,187,937)	75,725
Gain on remeasurement of investment in KTC	(599,328)	
Foreign currency losses (gains)	757,060	(1,944,426)
Change in allowance for bad debt	(268,011)	676,367
Change in warranty reserves	350,000	
Change in inventory reserves	553,429	(121,611)
<b>Changes in assets and liabilities:</b>		
Accounts receivable	(412,206)	(7,723,494)
Inventory	(2,136,651)	2,485,212
Prepaid expenses and other current assets	(1,388,376)	(569,726)
Accounts payable and accrued expenses	(1,687,915)	(893,573)
Billings in excess of revenue earned	(133,147)	2,426,527
<b>Net cash provided by in operating activities</b>	<b>14,097,440</b>	<b>5,350,010</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of marketable securities	27,144,718	36,781,194
Purchase of marketable securities	(41,911,058)	(24,603,656)
Notes receivable from unconsolidated affiliate		(2,041,021)
Cash paid to acquire KTC equity interest, net of KTC cash acquired	212,380	
Proceeds from disposal of property, plant and equipment	426,537	
Other assets	(16,275)	(31,578)
Capital expenditures	(2,334,937)	(2,843,778)
<b>Net cash (used in) provided by investing activities</b>	<b>(16,478,635)</b>	<b>7,261,161</b>
<b>Cash flows from financing activities:</b>		
Treasury stock purchases	(5,299,451)	
Settlements of restricted stock for tax withholding obligations	(100,732)	
Proceeds from exercise of stock options	19,219	131,485
Investment in KTC after controlling interest was acquired	(300,000)	
<b>Net cash (used in) provided by financing activities</b>	<b>(5,680,964)</b>	<b>131,485</b>
Effect of exchange rate changes on cash	217,419	(1,463,399)

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Net (decrease) increase in cash and equivalents	(7,844,740)	11,279,257
Cash and equivalents:		
Beginning of period	57,949,449	30,748,060
End of period	\$ 50,104,709	\$ 42,027,317
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 824,000	\$ 193,000
Supplemental schedule of noncash investing activities:		
Construction in progress included in accrued expenses	\$	\$ 504,000

See notes to condensed consolidated financial statements

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**KOPIN CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION**

The condensed consolidated financial statements include the accounts of Kopin Corporation, its wholly owned subsidiaries, Kowon Technology Co., Ltd. (Kowon), a majority owned (78%) subsidiary located in Korea and Kopin Taiwan Corporation (KTC), a majority owned (87%) subsidiary located in Taiwan (collectively the Company). Amounts of Kowon and KTC not attributable to the Company are referred to as noncontrolling interests. All intercompany transactions and balances have been eliminated.

The condensed consolidated financial statements for the three and nine months ended September 26, 2009 and September 27, 2008 are unaudited and include all adjustments which, in the opinion of management, are necessary to present fairly the results of operations for the periods then ended. The Company evaluates all events or transactions that occur after the balance sheet date through the day before the date of issuance of its financial statements. For the period ending September 26, 2009, subsequent events were evaluated through November 4, 2009.

These condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements and notes thereto.

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

In June 2009 the Financial Accounting Standards Board, or FASB, established the Accounting Standards Codification, or Codification, as the source of authoritative GAAP recognized by the FASB. The Codification is effective in the first interim and annual periods ending after September 15, 2009 and had no effect on our unaudited condensed consolidated financial statements.

As a result of the adoption of expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary, certain reclassifications have been made to the balance sheet as of December 27, 2008 and to the statement of operations for the three and nine months ended September 27, 2008 to conform to the current presentation.

**2. CASH AND EQUIVALENTS AND MARKETABLE SECURITIES**

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

Marketable debt securities consist primarily of commercial paper, medium-term corporate notes, and United States government and agency backed securities. The Company classifies marketable debt securities included in Marketable Securities and the investments in Micrel and Advanced Wireless Semiconductor Company in Other Assets as available-for-sale and accordingly carries them at fair value, with the associated unrealized gain/loss classified in accumulated other comprehensive income (loss). Unrealized losses resulting from a decline in the credit worthiness of the issuer that are considered other than temporary are recorded directly to the consolidated statement of operations. The net unrealized holding gains recorded in accumulated other comprehensive income, for available-for-sale marketable debt securities at September 26, 2009 and December 27, 2008, were \$1,863,397 and \$558,381, respectively. The Company records the amortization of premium and accretion of discounts on marketable debt securities in the results of operations.

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Investments in available-for-sale marketable debt securities are as follows at September 26, 2009 and December 27, 2008:

	Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	
	2009	2008	2009	2008	2009	2008	2009	2008
U.S. government and agency backed securities	\$ 28,265,676	\$ 25,353,439	\$ 224,127	\$ 533,923	\$	\$	\$ 28,489,803	\$ 25,887,362
Corporate debt	27,285,196	16,154,722	1,639,270	24,458			28,924,466	16,179,180
<b>Total</b>	<b>\$ 55,550,872</b>	<b>\$ 41,508,161</b>	<b>\$ 1,863,397</b>	<b>\$ 558,381</b>	<b>\$</b>	<b>\$</b>	<b>\$ 57,414,269</b>	<b>\$ 42,066,542</b>

The Company conducts a formal review of its marketable debt securities on a quarterly basis for the presence of other-than-temporary impairment (OTTI). Included in Other Income and Expense is an impairment charge on investments in corporate debt instruments of \$0.9 million for the nine months ended September 26, 2009.

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; (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 credit worthiness of the issuer (credit-related OTTI) and the amount of non credit-related OTTI. Noncredit-related OTTI can be caused by such factors as market illiquidity. Credit-related OTTI is recognized in earnings while noncredit-related OTTI on securities not expected to be sold is recognized in other comprehensive income (OCI). The Company reclassified \$1.8 million of non credit-related OTTI recognized in its earnings prior to March 29, 2009 from retained earnings to accumulated OCI as a cumulative effect adjustment when it adopted a new accounting standard in the second quarter of 2009.

The contractual maturity of the Company's marketable debt securities is as follows at September 26, 2009:

	Less than	One to	Greater	Total
	One year	Five years	than Five years	
U.S. government and agency backed securities	\$ 2,516,953	\$ 25,972,850	\$	\$ 28,489,803
Corporate debt	1,550,827	17,654,889	9,718,750	28,924,466
<b>Total</b>	<b>\$ 4,067,780</b>	<b>\$ 43,627,739</b>	<b>\$ 9,718,750</b>	<b>\$ 57,414,269</b>

The Company uses the specific identification method as a basis for determining cost and calculating realized gains and losses. The gross gains and losses realized related to sales and maturities of marketable debt securities were not material during the nine months ended September 26, 2009 and the year ended December 27, 2008.

**3. FAIR VALUE MEASUREMENTS**

The following table details the fair value measurements within the fair value hierarchy of the Company's financial assets. 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.

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	Fair Value Measurement at September 26, 2009 Using:			
		Level 1	Level 2	Level 3
Money Markets and Cash Equivalents	\$ 14,285,945	\$ 14,285,945	\$	\$
U.S. Government Securities	28,489,803	28,489,803		
Corporate Debt	28,924,466		28,924,466	
Micrel, Inc.	1,630,576	1,630,576		
Advanced Wireless Semiconductor Company	3,280,220	3,280,220		
	\$ 76,611,010	\$ 47,686,544	\$ 28,924,466	\$

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Inventory is stated at the lower of cost (determined on the first-in, first-out or specific identification method) or market and consists of the following at September 26, 2009 and December 27, 2008:

	<b>September 26, 2009</b>	<b>December 27, 2008</b>
Raw materials	\$ 7,350,602	\$ 7,679,199
Work-in-process	3,833,710	2,505,113
Finished goods	4,352,973	3,085,174
	<b>\$ 15,537,285</b>	<b>\$ 13,269,486</b>

Inventory on consignment at customer locations was \$3.4 million and \$2.3 million at September 26, 2009 and December 27, 2008, respectively.

**5. NET INCOME PER SHARE**

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

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 26, 2009</b>	<b>September 27, 2008</b>	<b>September 26, 2009</b>	<b>September 27, 2008</b>
Weighted average common shares outstanding basic	66,214,047	67,774,347	67,023,695	67,749,273
Stock options and nonvested restricted common stock	814,500	753,835	543,563	252,938
Weighted average common shares outstanding diluted	67,028,547	68,528,182	67,567,258	68,002,211

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

	<b>September 26, 2009</b>	<b>September 27, 2008</b>
Nonvested restricted common stock	388,191	553,249
Stock options	4,929,595	5,963,906



Total	5,317,786	6,517,155
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## 6. STOCK BASED COMPENSATION

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 2009 and 2008. The fair value of nonvested restricted common stock awards is generally the market value of the Company's equity shares on the date of grant. The nonvested 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 meeting performance criteria. The performance criteria primarily consist of the achievement of the Company's annual incentive plan goals. 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 recognized compensation cost is reversed. The Company recognizes compensation costs on a straight-line basis over the requisite service period for time vested awards. For awards that vest based on performance conditions, the Company uses the accelerated model for graded vesting awards.

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A summary of award activity under the stock option plans as of September 26, 2009 and changes during the nine month period is as follows. All options were vested as of September 26, 2009.

	Nine Months Ended September 26, 2009	
	Shares	Weighted Average Exercise Price
Balance, December 27, 2008	5,825,532	\$ 11.68
Options granted		
Options forfeited/cancelled	(499,162)	10.21
Options exercised	(5,125)	3.75
Balance, September 26, 2009	5,321,245	\$ 11.83
Exercisable, September 26, 2009	5,321,245	

The following table summarizes information about stock options outstanding and exercisable at September 26, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.01 \$ 3.55	132,500	6.98	\$ 3.42	132,500	\$ 3.42
\$ 3.75 \$ 4.97	1,164,030	4.63	4.43	1,164,030	4.43
\$ 5.00 \$ 9.95	1,128,001	4.16	6.03	1,128,001	6.03
\$10.00 \$13.00	1,369,970	2.41	11.36	1,369,970	11.36
\$14.31 \$44.88	1,526,744	1.63	22.89	1,526,744	22.89
	5,321,245	3.16	\$ 11.83	5,321,245	\$ 11.83
Aggregate intrinsic value on September 26, 2009	\$ 427,199			\$ 427,199	

*NonVested Restricted Common Stock*

A summary of the activity for nonvested restricted common stock awards as of September 26, 2009 and changes during the nine months then ended is presented below:

	Shares	Weighted Average Grant Fair Value
Balance December 27, 2008	1,274,515	\$ 2.65
Granted	867,726	2.46
Forfeited	(46,945)	2.57

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Vested	(104,000)	2.43
Balance September 26, 2009	1,991,296	\$ 2.58

**Table of Contents***Stock-Based Compensation*

The following table summarizes stock-based compensation expense related to employee stock options and nonvested restricted common stock awards for the nine months ended September 26, 2009 and September 27, 2008 (no tax benefits were recognized):

	Nine Months Ended	
	September 26, 2009	September 27, 2008
Cost of product revenues	\$ 411,000	\$ 415,000
Research and development	202,000	258,000
Selling, general and administrative	917,000	1,053,000
Total	\$ 1,530,000	\$ 1,726,000

The total unrecognized compensation cost related to nonvested restricted common stock awards is expected to be recognized over a weighted average period of 3 years. The total unrecognized compensation cost at September 26, 2009 is \$3.5 million.

**7. OTHER ASSETS AND AMOUNTS DUE TO / FROM AFFILIATES***Marketable Equity Security*

As of September 26, 2009, the Company held approximately 200,000 shares of Micrel Semiconductor, Inc. common stock classified as available-for-sale with a fair market value of \$1.6 million and an adjusted cost basis of approximately \$1.5 million.

At September 26, 2009 the Company had an investment in Advance Wireless Semiconductor Company (AWSC), with a fair market value of \$3.3 million and an adjusted cost basis of \$0.8 million. On June 1, 2009, AWSC completed an initial public offering on a Taiwanese stock market. This investment is now classified as an available for sale marketable security and its fair market value is determined by reference to quoted market prices. One of the Company's Directors is a director of AWSC and several directors and officers own amounts ranging from 0.1% to 0.5% of the outstanding stock of AWSC.

*Non-Marketable Securities Equity Method Investments*

Equity earnings (losses) in unconsolidated affiliates consisted of the following:

	Nine Months Ended	
	September 26, 2009	September 27, 2008
KTC	\$ 824,000	\$ (454,619)
KoBrite	(342,000)	(151,018)
	\$ 482,000	\$ (605,637)

The Company accounts for its interest in KoBrite using the equity method and at September 26, 2009 the carrying value of the investment was \$3.3 million. During the nine months ended September 26, 2009, KoBrite sold common stock to an investor in KoBrite, which resulted in the Company's ownership of KoBrite declining to approximately 19% at September 26, 2009, from approximately 28% at December 27, 2008. One of the Company's Directors, who is also the chairman of Kopin Taiwan Corporation (KTC), is also a member of the Board of Directors of Bright LED, one of the principle investors of KoBrite.

Summarized financial information for KoBrite for the three and nine month periods ended June 30, 2009 and June 30, 2008 and for KTC for the three and nine month periods ended September 28, 2008 is as follows (KoBrite's results are recorded one quarter in arrears):

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	Three Months Ended		Nine Months Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Revenue	\$ 3,449,000	\$ 3,324,000	\$ 6,627,000	\$ 10,269,000
Gross margin	(143,000)	(41,000)	(533,000)	(543,000)
Loss from operations	(448,000)	(1,068,000)	(1,532,000)	(2,949,000)
Net loss	\$ (267,000)	\$ (1,126,000)	\$ (1,536,000)	\$ (3,156,000)

As described above in Note 8, KTC is a consolidated subsidiary as of July 31, 2009 and the table above only includes financial information for KTC prior to that date.

**Table of Contents***Amounts Due from and Due to Affiliates*

Related party receivables at September 26, 2009 and December 27, 2008 approximate the following amounts:

	September 26, 2009	December 27, 2008
Advanced Wireless Semiconductor Company	\$ 2,509,000	\$ 1,821,000
KoBrite	76,000	
Accounts receivable from unconsolidated affiliates	\$ 2,585,000	\$ 1,821,000

The Company has a non-trade receivable from KoBrite of \$586,000, shown in prepaid expenses and other current assets.

Certain officers and directors have invested in some of the Company's investee companies, including Micrel. The Company has a loan to a non-officer employee for approximately \$146,000 at September 26, 2009, which is due in 2009.

In fiscal year 2008 the Company entered into an agreement wherein it agreed to sell certain of its patents that it was no longer using to a party who would attempt to sub-license the patents. Under the terms of the agreement the amount the Company would receive for the sale of the patents was a percentage of any license fees, after expenses, from the sublicense. In the three and nine months ended September 26, 2009, the Company recorded \$2.1 million and \$6.2 million, respectively, of license fees from the sale of these patents.

**8. ACQUISITION OF EQUITY INTERESTS IN KTC**

On July 30, 2009, the Company purchased an additional 19,572,468 newly issued shares of KTC common stock for approximately \$5,975,000, from KTC (the Transaction), in order to obtain a controlling interest. On August 11, 2009, the Company also purchased an additional 128,226 shares of KTC from Microelectronics Technology Inc. (MTI), for \$300,000. As a result of these two transactions and the Company's previous investments in KTC, the Company owns approximately 87% of the now outstanding common stock of KTC. The remaining 13% is held by other investors and employees of KTC. In conjunction with the Transaction, KTC repaid an outstanding loan due to the Company from KTC of approximately \$2,012,000. The Company has consolidated KTC beginning July 31, 2009.

The total purchase price, excluding the shares purchased from MTI which were accounted for as described below, was \$6,574,742, and is comprised of:

Cash consideration	\$ 5,975,414
Fair market value of Kopin's previously held equity method investment in KTC	599,328
<b>Total purchase price</b>	<b>\$ 6,574,742</b>

The preliminary allocation of the purchase price is as follows:

Cash and marketable securities	\$ 6,251,087
Accounts receivable (net of allowance of \$428,000)	1,671,298
Property, plant and equipment	3,429,339
Assets held for sale	1,564,037
Other identifiable assets	702,046
Identifiable liabilities	(5,988,414)
Noncontrolling interest in KTC	