KOPIN CORP
Form 10-Q
August 09, 2012
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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 June 30, 2012

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	**04-2833935**
State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization	**Identification No.)**
200 John Hancock Rd., Taunton, MA	**02780-1042**
(Address of principal executive offices)	**(Zip Code)**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 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 x 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 x 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	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

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

Class	**Outstanding as of August 3, 2012**
Common Stock, par value $.01	66,303,812

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Kopin Corporation

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Part 1: FINANCIAL INFORMATION

Item 1: Condensed Consolidated Financial Statements (Unaudited)

KOPIN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and equivalents	$ 31,160,196	$ 43,095,163
Marketable debt securities, at fair value	65,166,873	62,323,387
Accounts receivable, net of allowance of $389,000 and $513,000 in 2012 and 2011, respectively	12,417,196	16,510,851
Accounts receivable from unconsolidated affiliates	2,036,859	1,340,788
Unbilled receivables	457,601	36,115
Inventory	19,913,736	20,468,512
Prepaid taxes	631,199	667,759
Prepaid expenses and other current assets	1,267,288	1,294,368
Total current assets	133,050,948	145,736,943
Property, plant and equipment, net	32,962,113	32,369,441
Deferred tax assets, net	3,620,257	4,201,627
Goodwill		1,664,457
Intangible assets, net	1,833,094	1,953,660
Other assets	10,471,571	7,946,087
Total assets	$ 181,937,983	$ 193,872,215
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 8,800,613	$ 12,384,869
Accrued payroll and expenses	3,074,176	4,182,505
Accrued warranty	1,031,000	1,318,000
Billings in excess of revenue earned	2,417,461	2,467,461
Other accrued liabilities	3,492,389	2,126,954
Total current liabilities	18,815,639	22,479,789
Asset retirement obligations	1,182,374	1,295,670
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 76,164,951 shares in 2012 and 76,123,940 shares in 2011; outstanding 63,415,349 shares in 2012 and 64,361,491 shares in 2011	732,765	732,263
Additional paid-in capital	317,551,126	315,710,160
Treasury stock (9,861,139 and 8,864,767 shares in 2012 and 2011, respectively, at cost)	(34,450,978)	(30,995,449)
Accumulated other comprehensive income	5,178,857	4,146,024
Accumulated deficit	(132,408,520)	(124,631,665)

Total Kopin Corporation stockholders equity	156,603,250	164,961,333
Noncontrolling interest	5,336,720	5,135,423
Total stockholders equity	161,939,970	170,096,756
Total liabilities and stockholders equity	$ 181,937,983	$ 193,872,215

See notes to condensed consolidated financial statements.

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KOPIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 25, 2011	June 30, 2012	June 25, 2011
Revenues:				
Net product revenues	$ 21,781,518	$ 29,597,668	$ 46,436,312	$ 62,518,659
Research and development revenues	1,066,519	1,833,289	1,659,210	3,846,790
	22,848,037	31,430,957	48,095,522	66,365,449
Expenses:				
Cost of product revenues	15,919,471	19,115,190	33,880,204	41,061,802
Research and development	4,991,145	7,139,559	10,120,141	13,524,308
Selling, general and administration	5,025,467	4,697,648	10,123,175	9,142,794
Impairment of goodwill	1,704,770		1,704,770	
	27,640,853	30,952,397	55,828,290	63,728,904
(Loss) income from operations	(4,792,816)	478,560	(7,732,768)	2,636,545
Other income and expense:				
Interest income	294,782	365,611	528,337	629,303
Other income (expense), net	88,463	33,316	141,243	(241)
Foreign currency transaction gains (losses)	67,684	(347,077)	(130,660)	(638,036)
Gain on sale of investments		368,641	856,170	368,641
Gain on sale of patents				155,658
	450,929	420,491	1,395,090	515,325
(Loss) income before provision for income taxes, equity losses in unconsolidated affiliates and net (income) loss attributable to noncontrolling interest	(4,341,887)	899,051	(6,337,678)	3,151,870
Tax provision	(549,000)	(97,500)	(865,000)	(195,500)
(Loss) income before equity loss in unconsolidated affiliate and net (income) loss of noncontrolling interest	(4,890,887)	801,551	(7,202,678)	2,956,370
Equity losses in unconsolidated affiliates	(233,907)	(43,599)	(390,202)	(154,238)
Net (loss) income	(5,124,794)	757,952	(7,592,880)	2,802,132
Net (income) loss attributable to the noncontrolling interest	(72,738)	43,872	(183,975)	65,399
Net (loss) income attributable to the controlling interest	$ (5,197,532)	$ 801,824	$ (7,776,855)	$ 2,867,531
Net (loss) income per share				
Basic	$ (0.08)	$ 0.01	$ (0.12)	$ 0.04
Diluted	$ (0.08)	$ 0.01	$ (0.12)	$ 0.04
Weighted average number of common shares				

Basic	63,078,510	64,528,623	63,651,983	64,632,732
Diluted	63,078,510	65,774,967	63,651,983	65,715,021

See notes to condensed consolidated financial statements

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KOPIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 25, 2011	June 30, 2012	June 25, 2011
Net (loss) income	$ (5,124,794)	757,952	$ (7,592,880)	$ 2,802,132
Foreign currency translation adjustments	(829,709)	739,806	223,845	1,084,671
Holding (loss) gain on marketable securities	(208,712)	(716,282)	1,370,669	(393,095)
Reclassifications of gains in net (loss) income	(48,700)	(411,510)	(544,359)	(428,469)
Comprehensive (loss) income	$ (6,211,915)	$ 369,966	$ (6,542,725)	$ 3,065,239
Comprehensive loss (income) attributable to the noncontrolling interest	50,125	(96,573)	(201,297)	(77,919)
Comprehensive (loss) income attributable to controlling interest	$ (6,161,790)	$ 273,393	$ (6,744,022)	$ 2,987,320

See notes to condensed consolidated financial statements

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KOPIN CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Kopin Corporation Stockholders Equity	Noncontrolling interest	Total Stockholders Equity
Balance December 31, 2011	**73,226,258**	**$ 732,263**	**$ 315,710,160**	**$ (30,995,449)**	**$ 4,146,024**	**$ (124,631,665)**	**$ 164,961,333**	**$ 5,135,423**	**$ 170,096,756**
Stock-based compensation expense			1,938,385				1,938,385		1,938,385
Vesting of restricted stock	78,000	780	(780)						
Net unrealized holding gain on marketable securities					826,310		826,310		826,310
Foreign currency translation adjustments					206,523		206,523	17,322	223,845
Restricted stock for tax withholdings	(27,770)	(278)	(96,639)				(96,917)		(96,917)
Treasury stock purchase				(3,455,529)			(3,455,529)		(3,455,529)
Net loss						(7,776,855)	(7,776,855)	183,975	(7,592,880)
Balance June 30, 2012	**73,276,488**	**$ 732,765**	**$ 317,551,126**	**$ (34,450,978)**	**$ 5,178,857**	**$ (132,408,520)**	**$ 156,603,250**	**$ 5,336,720**	**$ 161,939,970**

See notes to condensed consolidated financial statements.

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KOPIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	June 30, 2012	June 25, 2011
Cash flows from operating activities:		
Net (loss) income	$ (7,592,880)	$ 2,802,132
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	5,132,790	3,812,998
Amortization of premium or discount on marketable debt securities	(142,119)	(82,219)
Stock-based compensation	2,223,828	1,470,524
Net gain on sale of investments	(856,170)	(368,641)
Losses in unconsolidated affiliates	390,202	154,238
Impairment of goodwill	1,704,770	
Deferred income tax asset	581,370	
Foreign currency losses	98,441	575,580
Change in allowance for bad debt	(124,976)	(360,375)
Change in inventory reserves	547,318	271,636
Change in warranty reserves	(300,000)	
Changes in assets and liabilities:		
Accounts receivable	3,061,759	(2,065,893)
Inventory	29,185	2,786,195
Prepaid expenses and other current assets	69,014	210,907
Accounts payable and accrued expenses	(3,538,983)	(5,069,743)
Billings in excess of revenue earned	(50,000)	(606,121)
Net cash provided by operating activities	1,233,549	3,531,218
Cash flows from investing activities:		
Proceeds from sale of marketable debt securities	17,579,205	14,997,567
Purchase of marketable debt securities	(20,275,585)	(19,854,118)
Cash paid to acquire FDD, net of cash acquired	94,351	(10,084,307)
Purchase of investments	(2,249,784)	
Proceeds from sale of investments	856,170	392,196
Other assets	73,189	(19,655)
Capital expenditures	(5,748,450)	(3,865,205)
Net cash used in investing activities	(9,670,904)	(18,433,522)
Cash flows from financing activities:		
Treasury stock purchases	(3,455,529)	(1,907,324)
Proceeds from exercise of stock options		72,445
Settlements of restricted stock for tax withholding obligations	(96,917)	(63,069)
Net cash used in financing activities	(3,552,446)	(1,897,948)
Effect of exchange rate changes on cash	54,834	136,116

Net decrease in cash and equivalents	(11,934,967)	(16,664,136)
Cash and equivalents:		
Beginning of period	43,095,163	49,834,547
End of period	$ 31,160,196	$ 33,170,411
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 197,000	$ 139,000
Supplemental schedule of noncash investing activities:		
Construction in progress included in accrued expenses	$ 361,000	$ 995,000

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 accompanying 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 (90%) subsidiary located in Taiwan (collectively the Company or we). Ownership interests 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 six months ended June 30, 2012 and June 25, 2011 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. These condensed consolidated financial statements should be read in conjunction with the Company s financial statements and notes thereto, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

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.

Immaterial Restatement

During the second quarter of 2012, the Company identified an error in the calculation of intercompany profit elimination in inventory for prior periods. While the Company believes the correction of this error is not material to its previously issued historical consolidated financial statements, the Company has restated certain balances within the condensed consolidated balance sheet as of December 31, 2011 to correct this error. The condensed consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2012 and condensed consolidated statements of cash flows for the six months ended June 30, 2012 were not impacted by this error.

The effects of this restatement on the consolidated balance sheet as of December 31, 2011 are as follows (in thousands):

Balance Sheet Data	December 31, 2011 as previously reported	Adjustment	December 31, 2011 as restated
ASSETS			
Current assets:			
Cash and equivalents	$ 43,095	$	$ 43,095
Marketable debt securities, at fair value	62,323		62,323
Accounts receivable, net of allowance of $513,000 in 2011	16,511		16,511
Accounts receivable from unconsolidated affiliates	1,341		1,341
Unbilled receivable	36		36
Inventory	21,416	(947)	20,469
Prepaid taxes	412	256	668
Prepaid expenses and other current assets	1,294		1,294
Total current assets	146,428	(691)	145,737
Property, plant & equipment, net	32,369		32,369
Deferred tax assets	4,202		4,202
Goodwill	1,665		1,665
Intangible assets	1,954		1,954
Other assets	7,946		7,946
Total assets	$ 194,564	$ (691)	$ 193,873

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities:				
Accounts payable	$	12,385	$	12,385
Accrued payroll and expenses		4,183		4,183
Accrued warranty		1,318		1,318
Billings in excess of revenue earned		2,467		2,467

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Balance Sheet Data	December 31, 2011 as previously reported	Adjustment	December 31, 2011 as restated
Other accrued liabilities	2,127		2,127
Total current liabilities	22,480		22,480
Asset Retirement obligations	1,296		1,296
Commitments and contingencies			
Stockholders equity:			
Preferred stock			
Common stock	732		732
Additional paid-in capital	315,710		315,710
Treasury stock	(30,995)		(30,995)
Accumulated other comprehensive income	4,146		4,146
Accumulated deficit	(124,008)	(623)	(124,631)
Total Kopin Corporation stockholders equity	165,585	(623)	164,962
Non controlling interest	5,203	(68)	5,135
Total stockholder equity	170,788	(691)	170,097
Total liabilities and stockholders equity	$ 194,564	$ (691)	$ 193,873

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 these marketable debt securities as available-for-sale in Marketable Debt Securities . The investments in Advanced Wireless Semiconductor Company (AWSC) and WIN Semiconductor Corp. (WIN) are included in Other Assets as available-for-sale and recorded at fair value. The Company records the amortization of premium and accretion of discount 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 six months ended June 30, 2012 and the year ended December 31, 2011.

Investments in available-for-sale marketable debt securities are as follows at June 30, 2012 and December 31, 2011:

	Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	
	2012	2011	2012	2011	2012	2011	2012	2011
U.S. government and agency backed securities	$ 36,121,573	$ 31,480,482	$ 561,093	$ 665,171	$	$	$ 36,682,666	$ 32,145,653
Corporate debt and certificates of deposit	29,024,865	30,879,717			(540,658)	(701,983)	28,484,207	30,177,734
Total	$ 65,146,438	$ 62,360,199	$ 561,093	$ 665,171	$ (540,658)	$ (701,983)	$ 65,166,873	$ 62,323,387

The contractual maturity of the Company s marketable debt securities is as follows at June 30, 2012:

	Less than One year	One to Five years	Greater than Five years	Total
U.S. government and agency backed securities	$ 6,058,860	$ 27,968,230	$ 2,655,576	$ 36,682,666
Corporate debt and certificates of deposit	19,293,984	8,358,973	831,250	28,484,207
Total	$ 25,352,844	$ 36,327,203	$ 3,486,826	$ 65,166,873

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

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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 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 (loss) income. The Company did not record an OTTI for the three and six month periods ended June 30, 2012 and June 25, 2011.

3. 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:

		Fair Value Measurement at June 30, 2012 Using:		
		Level 1	Level 2	Level 3
Money Markets, Cash and Equivalents	$ 31,160,196	$ 31,160,196	$	$
U.S. Government Securities	36,682,666	17,515,855	19,166,811	
Corporate Debt	13,622,465		13,622,465	
Certificates of Deposit	14,861,742		14,861,742	
WIN Semiconductor Corp.	1,563,126	1,563,126		
Advanced Wireless Semiconductor Company	2,517,220	2,517,220		
	$ 100,407,415	$ 52,756,397	$ 47,651,018	$

		Fair Value Measurement at December 31, 2011 Using:		
		Level 1	Level 2	Level 3
Money Markets, Cash and Equivalents	$ 43,095,163	$ 43,095,163	$	$
U.S. Government Securities	32,145,653	12,892,670	19,252,983	
Corporate Debt	18,754,992		18,754,992	
Certificates of Deposit	11,422,742		11,422,742	
WIN Semiconductor Corp.	1,709,189	1,709,189		
Advanced Wireless Semiconductor Company	1,602,096	1,602,096		
	$ 108,729,835	$ 59,299,118	$ 49,430,717	$

The corporate debt consists of floating rate notes with a maturity that is over multiple years but has interest rates which are reset every three months based on the then current three month London Interbank Offering Rate (three month Libor). The Company determines the fair market values of these corporate debt instruments through the use of a model which incorporates the three month Libor, the credit default swap rate of the issuer and the bid and ask price spread of same or similar investments which are traded on several markets.

The carrying amounts of cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of their short-term nature. The carrying amount of accrued liabilities is classified as Level 3 in the fair value hierarchy.

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4. INVENTORY

Inventory is stated at the lower of cost (determined on the first-in, first-out or specific identification method) or market and consists of the following at June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Raw materials	$ 9,914,530	$ 9,934,724
Work-in-process	2,838,868	5,220,353
Finished goods	7,160,338	5,313,435
	$ 19,913,736	$ 20,468,512

Inventory on consignment at customer locations was $5.0 million and $3.4 million at June 30, 2012 and December 31, 2011, respectively.

5. NET (LOSS) INCOME PER SHARE

Basic net (loss) income per share is computed using the weighted average number of shares of common stock outstanding during the period less any non-vested 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:

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 25, 2011	June 30, 2012	June 25, 2011
Weighted average common shares outstanding-basic	63,078,510	64,528,623	63,651,983	64,632,732
Stock options and non-vested restricted common stock		1,246,344		1,082,289
Weighted average common shares outstanding-diluted	63,078,510	65,774,967	63,651,983	65,715,021

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.

	June 30, 2012	June 25, 2011
Non-vested restricted common stock	2,888,463	554,012
Stock options	1,838,615	935,441
Total	4,727,078	1,489,453

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 the six month period ended June 30, 2012, or in fiscal year 2011. The fair value of non-vested restricted common stock awards is generally the market value of the Company s equity shares on the date of grant. The non-vested 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. The performance criteria primarily consist of the achievement of the Company s annual incentive plan goals. For non-vested 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 non-vested 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.

In 2011, the Company granted 380,000 shares of phantom stock which will be settled in cash at the end of the first 10 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 $5.25, prior to September 12, 2016. The vesting of the awards upon achieving a closing stock price of $5.25 for 10

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consecutive days is considered a market condition which requires the Company to periodically assess the fair market value of the award, with increases or decrease in the fair market value being reflected in the statement of operations. The fair market of the awards will be expensed over a derived service period currently estimated to be approximately 12 months. However, if the market condition occurs before the estimated service period of 12 months or if there are material changes in the underlying data used in the fair market valuation, the fair market valuation may increase or decrease and the period over which the fair market valuation is recognized in the statement of operations may increase or decrease.

A summary of award activity under the stock option plans as of June 30, 2012 and changes during the six month period is as follows (all options were vested as of June 30, 2012):

	Six months ended June 30, 2012	
	Shares	**Weighted Average Exercise Price**
Balance, December 31, 2011	1,903,325	$ 5.07
Options forfeited/cancelled	(64,710)	8.00
Options exercised		
Balance, all exercisable, June 30, 2012	1,838,615	$ 4.97

The following table summarizes information about stock options outstanding and exercisable at June 30, 2012:

	Options Outstanding and Exercisable		
Range of Exercise Prices	**Number Outstanding and Exercisable**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**
$ 0.01 $ 3.50	130,000	4.00	$ 3.49
$ 3.75 $ 4.82	1,069,460	1.60	4.45
$ 5.00 $ 8.72	539,155	2.23	5.40
$10.00 $13.00	100,000	4.00	10.00
	1,838,615	2.08	$ 4.97
Aggregate intrinsic value on June 30, 2012	$ 1,450		

In June 2010, the Company issued a warrant to purchase 200,000 shares of the Company s stock at $3.49. The warrant vested during the period ended June 30, 2012.

Non-Vested Restricted Common Stock

A summary of the activity for non-vested restricted common stock awards as of June 30, 2012 and changes during the six months then ended is presented below:

	Shares	**Weighted Average**

		Grant Fair Value
Balance, December 31, 2011	2,897,682	$ 4.20
Granted	85,000	3.60
Forfeited	(16,219)	4.38
Vested	(78,000)	3.54
Balance, June 30, 2012	2,888,463	$ 4.20

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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 six months ended June 30, 2012 and June 25, 2011 (no tax benefits were recognized):

	Six Months Ended	
	June 30, 2012	June 25, 2011
Cost of product revenues	$ 265,503	$ 296,866
Research and development	174,101	288,969
Selling, general and administrative	1,784,224	884,689
Total	$ 2,223,828	$ 1,470,524

Total unrecognized compensation expense for non-vested restricted common stock as of June 30, 2012 totals $6.2 million and is expected to be recognized over a weighted average period of 3 years.

7. OTHER ASSETS AND AMOUNTS DUE TO / FROM AFFILIATES

Marketable Equity Securities

As of June 30, 2012 and December 31, 2011, the Company had an investment in AWSC, with a fair market value of $2.5 million and $1.6 million, respectively and an adjusted cost basis of $0.7 million and $0.7 million, respectively. 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.

As of June 30, 2012 and December 31, 2011, the Company had an investment in WIN, with a fair market value of $1.6 million and $1.7 million, respectively. The adjusted cost basis of the WIN investment is $0. In the six month period ended June 30, 2012 the Company sold 500,000 shares of WIN and recorded a gain of $0.9 million.

AWSC and WIN are listed on the Gre Tai Securities Exchange in Taiwan. The Company determines the fair market value of these investments based on the quoted prices from this exchange.

Non-Marketable Securities Equity Method Investments

The Company has an approximate 12% interest in KoBrite at June 30, 2012. The Company accounts for its interest using the equity method and at June 30, 2012 the carrying value of the investment was $2.1 million. One of the Company s directors, who is the chairman of KTC, is a member of the Board of Directors of Bright LED, one of the other principal investors of KoBrite.

During the period ended March 31, 2012 the Company acquired a 25% interest in a private company, Ikanos Consulting, LTD (Ikanos), for $0.7 million and subsequent to June 30, 2012 invested an additional $2.5 million, which increased the Company s interest in Ikanos to 51%. For the period ended June 30, 2012 the Company recorded the results of operation of Ikanos on the equity method of accounting and commencing in the third quarter of 2012 the Company will consolidate Ikanos.

Summarized financial information for KoBrite for the three and six month periods ended March 31, 2012 and March 26, 2011 (KoBrite s results are recorded one quarter in arrears) and Ikanos for the three and six month periods ended June 30, 2012 are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 25, 2011	June 30, 2012	June 25, 2011
Revenue	$ 1,170,000	$ 1,298,000	$ 2,915,000	$ 2,289,000
Gross margin	(653,000)	122,000	(885,000)	(399,000)

Loss from operations	(1,505,000)	(276,000)	(2,283,000)	(1,255,000)
Net loss	$ (1,532,000)	$ (371,000)	$ (2,843,000)	$ (1,314,000)

During the period ended June 30, 2012, the Company acquired a 5% interest in a private company for $1.0 million. If the private company achieves certain development milestones, the Company is obligated to acquire up to an additional 17.5% interest in the private company for a total of $2.0 million. In addition, for an eight month period after the achievement of all of the development milestones, the Company has the right to acquire an additional 10% interest in the private company for $2.0 million or the private company can require the Company to purchase an additional 25% interest for $2.0 million.

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Amounts Due from and Due to Affiliates

Related party receivables from AWSC approximated $2.0 million and $1.1 million at June 30, 2012 and December 31, 2011, respectively. At June 30, 2012 and December 31, 2011 the Company also had $0.1 million and $0.2 million, respectively, due from other related parties.

The Company has 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 sublicense 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 six months ended June 30, 2012 and June 25, 2011 the Company recorded $0 million and $0.2 million of gains, respectively, from the sale of these patents.

8. GOODWILL AND INTANGIBLES

The Company s goodwill balance in Forth Dimension Displays, Ltd, is as follows:

Goodwill, December 31, 2011	$ 1,664,457
Impairment of goodwill	(1,704,770)
Foreign currency translation	40,313
Goodwill, June 30, 2012	$

As of June 30, 2012, the Company performed an interim impairment analysis of its finite-lived intangible assets and goodwill balance related to its wholly-owned subsidiary Forth Dimension Displays, Ltd (FDD), as FDD s actual results were less than originally forecast for the six-month period. The Company performed its analysis of its finite-lived intangible assets based on a comparison of the undiscounted cash flows to the recorded carrying value of the intangible assets. As a result, there was no change in the carrying values of the finite-lived intangible assets.

After completing its finite-lived intangible asset impairment test, the Company completed its impairment analysis of the goodwill derived from the FDD acquisition and determined the goodwill was impaired. The Company s impairment analysis for goodwill consisted of comparing the implied fair value of goodwill to its carrying value as of June 30, 2012. Determining the fair value of goodwill required determining the fair value of the FDD reporting unit using certain assumptions, including the consideration of two generally accepted valuation methodologies: (i) the income approach and (ii) the market approach. The income approach is based upon the present value of the expected income that can be generated through the ownership of the property. The market approach is a process by which the market value estimate is derived analyzing similar assets that have been recently sold or licensed and then comparing them to the subject. The Company concluded that, given the size of FDD and it s relatively niche business, the income approach provided the most accurate method of valuation.

Based on this analysis, the Company recorded a $1.7 million goodwill impairment charge as of and for the quarter ended June 30, 2012.

The discount rate used was the value-weighted average of the Company s estimated cost of equity and debt (cost of capital) derived using both known and estimated customary market metrics.

The identified intangible assets will be amortized on a straight-line basis over the following lives:

	Years
Customer relationships	7
Developed technology	7
Trademark portfolio	7

The Company recognized $0.1 million in amortization for both the three and six months ended June 30, 2012 related to its intangible assets.

Customer relationships represent the fair value of the underlying relationships and agreements with FDD customers. Developed technology represents the fair value of FDD s technology as it exists in current products and has value through its continued use or reuse. The trademark represents the brand and name recognition associated with the marketing of FDD products and was determined to have a finite life.

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9. ACCRUED WARRANTY

The Company warrants its products against defect for 12 months. A provision for estimated future costs and estimated returns for credit relating to warranty is recorded in the period when product is shipped and revenue recognized, and is updated as additional information becomes available. The Company s estimate of future costs to satisfy warranty obligations is based primarily on historical warranty expense experienced and a provision for potential future product failures. Changes in the accrued warranty for the six month period ended June 30, 2012 are as follows:

Beginning Balance, December 31, 2011	$ 1,318,000
Additions	1,237,000
Claim and reversals	(1,524,000)
Ending Balance, June 30, 2012	$ 1,031,000

10. INCOME TAXES

The Company s tax provision of approximately $549,000 and $865,000 for the three and six months ended June 30, 2012, respectively, and $98,000 and $196,000 for the corresponding periods in 2011, represents alternative minimum and state income taxes, which are partially offset by the Company s net operating loss carryforwards (NOL) and tax credits, and foreign tax expenses.

As of June 30, 2012, the Company has available for tax purposes U.S. federal NOLs of $15.8 million expiring through 2021. The Company has recognized a full valuation allowance on its domestic and certain foreign net deferred tax assets due to the uncertainty of realization of such assets. The Company has not historically recorded, nor does it intend to record the tax benefits from stock awards until realized. Unrecorded benefits from stock awards approximate $13.1 million.

The Company s income tax returns have not been examined by the Internal Revenue Service and are subject to examination for all years since 2002. State income tax returns are generally subject to examination for a period of 3 to 5 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.

11. SEGMENTS AND GEOGRAPHICAL INFORMATION

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

The Company has four operating and reporting segments: (i) Kopin U.S., which includes the operations in the United States and the Company s equity method investment, (ii) Kowon, (iii) KTC and (iv) Forth Dimension Displays, Ltd. The following table presents the Company s reportable segment results for the three and six month periods ended June 30, 2012 and June 25, 2011 (in thousands):

	Kopin U.S.	Kowon	KTC	FDD	Adjustments	Total
Three Months Ended						
June 30, 2012						
Revenues	$ 22,181	$ 1,289	$ 8,220	$ 667	$ (9,509)	$ 22,848
Net (loss) income attributable to the controlling interest	(4,043)	(26)	1,301	(2,357)	(73)	(5,198)
June 25, 2011						
Revenues	$ 29,867	$ 2,456	$ 2,713	$ 1,564	$ (5,169)	$ 31,431
Net income (loss) attributable to the controlling interest	1,268	(147)	(89)	(274)	44	802
Six Months Ended						
June 30, 2012						
Revenues	$ 46,899	$ 2,778	$ 17,478	$ 1,196	$ (20,255)	$ 48,096

Net (loss) income attributable to the controlling interest	(7,038)	(174)	2,665	(3,046)	(184)	(7,777)
June 25, 2011						
Revenues	$ 63,800	$ 5,193	$ 6,339	$ 2,522	$ (11,489)	$ 66,365
Net income (loss) attributable to the controlling interest	3,705	(492)	489	(899)	65	2,868

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The adjustments to reconcile the consolidated financial statement total revenue and net income include the elimination of intercompany sales and noncontrolling interest in income of subsidiaries.

During the three and six month periods ended June 30, 2012 and June 25, 2011, the Company derived its sales from the following geographies (as a percentage of net revenues):

	Three Months Ended		Six Months Ended	
	June 30, 2012	**June 25, 2011**	**June 30, 2012**	**June 25, 2011**
Asia-Pacific	22%	19%	21%	22%
Americas	75%	79%	78%	77%
Europe	3%	2%	1%	1%
Total Revenues	100%	100%	100%	100%

During the three and six month periods ended June 30, 2012 and June 25, 2011, revenues by product group consisted of approximately the following:

	Three Months Ended		Six Months Ended	
	June 30, 2012	**June 25, 2011**	**June 30, 2012**	**June 25, 2011**
Display	$ 7,012,000	$ 15,425,000	$ 17,878,000	$ 32,798,000
III-V	15,836,000	16,006,000	30,218,000	33,567,000
Total Revenues	$ 22,848,000	$ 31,431,000	$ 48,096,000	$ 66,365,000

12. 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.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, including, without limitation, statements made relating to our expectation that sales to Skyworks Solutions and the customers who use our displays for military applications will represent a significant portion of our revenues for 2012; our expectation that we will continue developing HBT transistor wafers and other gallium arsenide products for advanced integrated circuit applications from other compound materials; our expectation that we will continue to pursue other U.S. government development contracts for applications that relate to our commercial product applications; our expectation that sales of our display products for consumer electronic applications will decline; our expectation that we will prosecute and defend our proprietary technology aggressively; our belief that it is important to invest in research and development to remain profitable even during periods when we are not profitable; our belief that we are a leading developer and manufacturer of advanced semiconductor materials and miniature displays; our belief that our products enable our customers to develop and market an improved generation of products; our belief that there will be increased sales of 3G, 4G and smart phones in 2012; our statement that we may make equity investments in companies; our expectation that KoBrite will incur additional losses in the near term; our expectation that revenue will be between $90 million and $100 million for 2012; our expectation that 2012 revenues will primarily be to customers located in the U.S.; our expectation that our revenues from sales of defense related products to the U.S. government will decline approximately $20 million to $30 million in 2012 as a result of the U.S. government s expected reduction in spending on military programs; our belief that we will see a reduction in revenues from the sale of our military products in 2012; our belief that a strengthening of the U.S. dollar could increase the price of our products in foreign markets; our expectation that a manufacturing/distribution partner will commence selling Golden-i products in 2012;

our belief that revenue will not be significant in 2012 from sales of Golden-i products; our belief that in successive years products such as Golden-i will be important for our revenue growth and ability to achieve profitability; our expectation that we will not receive additional amounts from the sale of patents; our expectation that our CyberDisplay products will benefit from further general technological advances in the design and production of integrated circuits and active matrix LCDs, resulting in further improvements in resolution and miniaturization; our expectation that a significant reduction or delay in orders

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from any of our significant military customers could result in us not being able to achieve profitability in 2012; our belief that our HBT transistor wafers offer greater power efficiency, improved signal quality and less complexity over gallium arsenide field effect transistors; our belief that our manufacturing process offers greater miniaturization, reduced cost, higher pixel density, full color capability and lower power consumption compared to conventional active matrix LCD manufacturing approaches; our expectation not to pay cash dividends for the foreseeable future and to retain earnings for the development of our businesses; our expectation, based on current negotiations with our customers and certain contractual obligations, that the sales prices of certain products will decline in fiscal year 2012; our plan to base production and inventory levels based on internal forecasts of customer demands; our belief that the overall increase or decrease in the average sales price of our display products will be dependent on the sales mix of commercial and military display sales; our belief that market risk associated with our international operations is unlikely to have a material adverse effect on our business, financial condition or results of operation; our expectation that we will expend between $5.0 million and $8.0 million on capital expenditures over the next twelve months; our intent to reduce our per unit production costs primarily through increasing manufacturing yield, lowering fixed costs per unit through increased sales volume, and increasing productivity and efficiency; our expectation that the market for display products for military applications will not be seasonal; our expectation that prices of our HBT transistor and display products sold for consumer electronic applications will decline by approximately 5 to 8 percent during fiscal year 2012, but may decline more depending on final negotiations with our customers; our expectation that competition will increase; our belief that our CyberDisplay products are well suited for new applications such as reading e-mail and browsing the Internet using digital wireless devices and other consumer electronics devices; our belief that small form factor displays will be a critical component in the development of advanced wireless communications systems; our belief that general technological advances in the design and fabrication of integrated circuits, LCD technology and LCD manufacturing processes will allow us to continue to enhance our CyberDisplay product manufacturing process; our expectation that a significant market for new wireless communication devices, including personal entertainment systems, will develop; our belief that continued introduction of new products in our target markets is essential to our growth; our belief that our future success will depend primarily upon the technical expertise, creative skills and management abilities of our officers and key employees rather than on patent ownership; our belief that our available cash resources will support our operations and capital needs for at least the next twelve months; and our belief that the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations, and cash flows should not be material. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate, management s beliefs, and assumptions made by management. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of us. Words such as expects , anticipates , intends , plans , believes , could , seeks , estimates , and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements, whether as a result of new information, future events or otherwise. Factors that could cause or contribute to such differences in outcomes and results include, but are not limited to, those discussed below in Item 1A and those set forth in our other periodic filings filed with the Securities and Exchange Commission.

Critical Accounting Policies

Management s discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed 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. We continually evaluate our estimates used in the preparation of our financial statements, including those related to revenue recognition under the percentage of completion method, bad debts, inventories, warranty reserves, investment valuations, valuation of stock compensation awards and recoverability of deferred tax assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not apparent from other sources. Actual results will most likely differ from these estimates. Further detail regarding our critical accounting policies can be found in Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Business Matters

We are a leading developer and manufacturer of advanced semiconductor products and miniature displays. We use our proprietary semiconductor material technology to design, manufacture and sell our III-V and display products for use in highly demanding commercial, industrial and military markets for use in mobile wireless communication and consumer electronic applications that include high resolution displays.

We have two principal sources of revenues: product revenues and research and development (R&D) revenues. Product revenues consist of sales of our display products and our III-V products, principally gallium arsenide (GaAs) HBT transistor wafers. R&D revenues consist primarily of development contracts with agencies of the U.S. government. For the three and six months ended June 30, 2012, R&D revenues were $1.1 million and $1.7 million or 5% and 3% of total revenues, respectively. This contrasted with $1.8 million and $3.8 million for the corresponding period in 2011.

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Results of Operations

The three and six month periods ended June 30, 2012 and June 25, 2011 are referred to as 2012 and 2011, respectively. The year ended period December 31, 2011 is referred to as fiscal year 2011.

Revenues. For the three and six month periods ended June 30, 2012 and June 25, 2011, our revenues, which include product sales and amounts earned from research and development contracts, were as follows (in millions):

	Three Months Ended		Six Months Ended	
Revenues (in millions):	**June 30, 2012**	**June 25, 2011**	**June 30, 2012**	**June 25, 2011**
Display	$ 7.0	$ 15.4	$ 17.9	$ 32.8
III-V	15.8	16.0	30.2	33.6
Total revenues	$ 22.8	$ 31.4	$ 48.1	$ 66.4

The decrease in display revenues for the three month period ended June 30, 2012 compared to the same period in 2011 resulted from a decrease in sales of our display products to customers that use them for military applications, consumer electronic applications and R&D programs.

The decrease in our III-V revenues for the six month period ended June 30, 2012 as compared to the same period in 2011 resulted primarily from a decrease in demand from customers who purchase our HBT transistor wafers for use in cellular handsets.

Display revenues for military, consumer and R&D applications for 2012 and 2011 were as follows:

	Three Months Ended		Six Months Ended	
Display Revenues by Category (in millions)	**June 30, 2012**	**June 25, 2011**	**June 30, 2012**	**June 25, 2011**
Military Application	$ 3.1	$ 9.2	$ 10.7	$ 20.2
Consumer Electronic Applications	3.0	4.5	5.8	9.0
Research & Development	0.9	1.7	1.4	3.6
Total	$ 7.0	$ 15.4	$ 17.9	$ 32.8

Sales of our products for military applications declined in 2012 because of reduced demand from the U.S. government. In addition to the reduced demand from the U.S. government our customers are delaying orders as they review ways to reduce their costs. Among the methods our customers are evaluating to reduce costs are doing more of the final unit assembly in-house, redesigning the unit with lower cost components, adjusting the delivery schedule of purchases to maximize economies from bulk purchases and requesting lower prices from vendors. As a result of the factors above our ability to forecast 2012 military revenues has declined as compared to prior years but we do anticipate a reduction in revenues from the sale of our military products in 2012 by approximately $20 to $30 million. Our military products have higher profit margins than our other display products and have been a significant contributor to our overall profitability for the pasts several years.

The decrease in the Consumer Electronic Applications category is the result of a decrease in sales of our products for digital still cameras. Our ability to forecast our revenues in this category is very difficult as sales of our product ultimately depend on how successful our customers are in promoting their digital still cameras models and the trends in the overall digital still camera market. There are many digital still camera models offered by a number of large consumer electronic companies and it is a very competitive product category. In addition we typically rebid to win this business each year. The future trends of the digital still camera market are difficult to predict. Advanced wireless handsets, or smartphones, are offering higher resolution cameras within the handset and we believe this is reducing demand for low and mid-range digital still cameras. The customers for our eyewear products tend to be smaller companies and the economic down turn during the recent years has affected their ability to obtain credit with which to purchase our products.

The decrease in R&D revenue is the result of a decrease in funding from the U.S. government. We are unable to predict the amount of funding for R&D by the U.S. government as it addresses its fiscal deficit issues.

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In 2011, we began offering a headworn, hands-free cloud computing product that has an optical pod with a microdisplay which we refer to as Golden-i. Sales of Golden-i in 2011 were deminimis and were primarily to demonstrate the product concept. We have entered into an agreement to license the Golden-i technology and know-how to a company that is developing an industrialized product which they anticipate offering in 2012. The license is exclusive for the industrial market, non-exclusive for certain other markets and prohibits sales to certain markets. Under the terms of the license we will sell an optical pod which includes our display, optics and a back light. We do not believe revenue will be significant in 2012 from sales of these products but we do believe in successive years that products such as this will be important for our revenue growth and ability to achieve profitability. This is the first product that we have developed that has a significant software component.

There are a number of different display technologies which can produce displays in small form factors. Consumer electronic customers primarily choose displays based on cost which has resulted in low margins on a per unit basis and therefore profitability is based on achieving sufficient volume. With the declining demand for displays by the military, our focus has to shifted to creating products based on our Golden-i technologies. Our future success will be very dependent on our ability to commercialize our Golden-i technologies. We also anticipate, based on current discussions with our customers and certain contractual obligations that the prices of certain of our products will decline in fiscal year 2012. We anticipate the average selling price of our HBT transistor wafers and display products sold to customers for consumer electronics applications will decline approximately 5% to 8% during fiscal year 2012 relative to 2011. We expect sales prices of our display products for military applications to remain relatively flat for 2012 as compared to 2011. The overall increase or decrease in the average sales price of our display products will be dependent on the sales mix of commercial and military displays.

In our military display business, the decline in defense spending has prompted one customer to review various options to reduce costs, which is currently affecting an existing program. As a result of this review, orders we had anticipated in our 2012 guidance likely will not occur this year. Consequently, we are reducing our full-year 2012 revenue guidance to $90 million to $100 million from a previous range of $110 million to $120 million. However due to the current worldwide economic situation our ability to forecast revenues and results of operations is very limited. Our forecasts are based on numerous factors, including our discussions with customers and our expectations about the future global economy and are not based on firm non-cancellable orders. Our forecasts are also subject to the risk factors set forth in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2011.

International sales represented 22% and 23% of revenues for the six months ended June 30, 2012 and June 25, 2011, respectively. The increase in international sales is primarily attributable to an increase in sales of our III-V products to customers who sell components to manufacturers of wireless handsets. We expect our 2012 revenues will primarily be from customers located in the U.S. International sales are primarily sales of display products to consumer electronic manufacturers located in Japan, Korea and China. Our international sales are primarily denominated in U.S. dollars. Consequently, a strengthening of the U.S. dollar could increase the price in local currencies of our products in foreign markets and make our products relatively more expensive than competitors products that are denominated in local currencies, leading to a reduction in sales or profitability in those foreign markets. In addition, sales of our III-V products in Taiwan and display products in Korea are transacted through our Taiwanese subsidiary, Kopin Taiwan Corporation, and our Korean subsidiary, Kowon Technology Co., LTD, respectively. KTC and Kowon s sales are primarily denominated in U.S. dollars. However, KTC and Kowon s local operating costs are primarily denominated in Taiwan dollars and Korean won, respectively. KTC and Kowon also hold U.S. dollars in order to pay various expenses. As a result, our financial position and results of operations are subject to exchange rate fluctuation in transactional and functional currency. We have not taken any protective measures against exchange rate fluctuations, such as purchasing hedging instruments with respect to such fluctuations, because of the historically stable exchange rate between the Taiwan dollar, Japanese yen, Korean won and the U.S. dollar.

Cost of Product Revenue

	Three Months Ended	Six M