CENTURYLINK, INC
Form 8-K
November 27, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 27, 2013

CenturyLink, Inc.

(Exact name of registrant as specified in its charter)

Louisiana	**1-7784**	**72-0651161**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

Qwest Communications International Inc.

(Exact name of registrant as specified in its charter)

Delaware	**001-15577**	**84-1339282**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

100 CenturyLink Drive Monroe, Louisiana	**71203**
(Address of principal executive offices of each Registrant)	**(Zip Code of each Registrant)**

(318) 388-9000

(Registrant s telephone number, including area code of each Registrant)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.
Completion of Senior Notes Offering

On November 27, 2013, CenturyLink, Inc. (CenturyLink) completed its previously-announced public sale of $750 million aggregate principal amount of its unsecured 6.75% Senior Notes, Series W, due 2023 (the Senior Notes).

The public offering price of the Senior Notes was 100% of the principal amount. After deducting the underwriting discounts and CenturyLink s estimated transaction expenses, CenturyLink expects to receive net proceeds from the sale of the Senior Notes of approximately $742.0 million. CenturyLink expects to use the net proceeds, together with available cash or borrowings under its revolving credit facility, to provide its wholly-owned subsidiary, Qwest Communications International Inc. (Qwest Communications), with the total amount of funds required to complete its previously-announced tender offer of its $800 million aggregate principal amount of outstanding 7.125% Notes due 2018 (2018 Notes) and the redemption of any 2018 Notes that remain outstanding after the consummation or termination of the tender offer, including the payment of all accrued and unpaid interest payable on the 2018 Notes to be repurchased or redeemed and all related fees and expenses.

The Senior Notes were sold pursuant to an underwriting agreement dated November 14, 2013 (the Underwriting Agreement), between CenturyLink and the underwriters named therein (the Underwriters) and a related price determination agreement dated November 14, 2013 among the same parties (the Price Determination Agreement). Pursuant to the Underwriting Agreement, CenturyLink agreed to sell the Senior Notes to the Underwriters, and the Underwriters agreed to purchase the Senior Notes for resale to the public. The Underwriting Agreement includes customary representations, warranties and covenants by CenturyLink. It also provides for customary indemnification by each of CenturyLink and the Underwriters against certain liabilities and customary contribution provisions in respect of those liabilities.

The Senior Notes have been registered under the Securities Act of 1933, as amended, pursuant to an automatic shelf registration statement on Form S-3 (Registration No. 333-179888), filed with the Securities and Exchange Commission (the SEC) on March 2, 2012, as supplemented by a prospectus supplement dated November 14, 2013 (together, the Registration Statement).

The Senior Notes were issued pursuant to an indenture dated as of March 31, 1994 between CenturyLink and Regions Bank (successor to First American Bank & Trust of Louisiana), as trustee (the Trustee), as heretofore supplemented through the Ninth Supplemental Indenture, dated as of November 27, 2013, between CenturyLink and the Trustee (the Supplemental Indenture). The terms of the Senior Notes, including CenturyLink s rights to redeem the Senior Notes under certain circumstances and CenturyLink s obligations to offer to repurchase the Senior Notes under certain other circumstances, are set forth in the Supplemental Indenture.

The above descriptions are qualified in their entirety by reference to the Underwriting Agreement, the Price Determination Agreement, the Supplemental Indenture and the form of the

Senior Notes, copies of which are filed as exhibits hereto and incorporated herein by reference. Each of these exhibits (as well as the opinion of counsel also filed as an exhibit hereto) is incorporated by reference into the Registration Statement.

In reviewing the agreements included as exhibits to this report, please note that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about CenturyLink or the other parties to the agreements. Certain of the agreements contain representations and warranties by one or more of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in any instance be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about CenturyLink may be found elsewhere in the Registration Statement and CenturyLink s other public filings, which are available without charge through the SEC s website at http://www.sec.gov. See the press releases included as Exhibits 99.1 and 99.2 for more information.

Initial Settlement of Tender Offer

On November 27, 2013, CenturyLink, Inc. and its wholly-owned subsidiary, Qwest Communications, announced the early tender results and initial settlement of Qwest Communications previously-announced debt tender offer for all of its 2018 Notes commenced on November 14, 2013 and the issuance by Qwest Communications of a notice to redeem all outstanding 2018 Notes that remain outstanding. See the press releases included as Exhibits 99.1 and 99.2 for more information.

Forward-Looking Statements

This report includes certain forward-looking statements, estimates and projections that are based on current expectations only, and are subject to a number of risks, uncertainties and assumptions, many of which are beyond the control of CenturyLink and Qwest Communications. Actual events and results may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to the possibility *that corporate developments could preclude, impair or delay any of the above-described transactions due to restrictions under the federal securities laws; changes in the terms or availability of CenturyLink s credit facility; changes in the credit ratings of CenturyLink or its affiliates; changes in CenturyLink s or Qwest Communications cash requirements, financial position, financing plans or investment plans; changes in general market, economic, tax, regulatory or industry conditions that impact the ability or willingness of CenturyLink or Qwest Communications to consummate any of the above-described transactions on the terms described above or at all; the continued access of CenturyLink and its affiliates to credit markets on favorable terms and other risks referenced from time to time in CenturyLink s and Qwest Communications filings with the Securities and Exchange Commission. You should be aware that new factors may emerge from time to time and it is not possible for CenturyLink to identify all such factors, nor can CenturyLink predict the impact of each such factor on its plans, or the extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. You are further cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Neither CenturyLink nor Qwest Communications undertakes any obligation to update any of its forward-looking statements for any reason.*

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

The exhibits to this current report on Form 8-K are listed in the Exhibit Index, which appears at the end of this report and is incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, CenturyLink, Inc. and Qwest Communications International Inc. have duly caused this current report to be signed on their behalf by the undersigned officer hereunto duly authorized.

CenturyLink, Inc.

By: /s/ Stacey W. Goff
Stacey W. Goff
Executive Vice President,
General Counsel and Secretary

Qwest Communications International Inc.

By: /s/ Stacey W. Goff
Stacey W. Goff
Executive Vice President,
General Counsel and Assistant Secretary

Dated: November 27, 2013

Exhibit Index

Exhibit No.	Description
1.1	Underwriting Agreement, dated November 14, 2013, between CenturyLink, Inc. and the underwriters named therein.
1.2	Price Determination Agreement, dated November 14, 2013, between CenturyLink, Inc. and the underwriters named therein.
4.1	Ninth Supplemental Indenture, dated as of November 27, 2013, between CenturyLink, Inc. and Regions Bank, as Trustee.
4.2	Form of 6.75% Senior Note, Series W, due 2023 (included in Exhibit 4.1).
5.1	Opinion of Jones Walker L.L.P. relating to the sale of the Senior Notes.
23.1	Consent of Jones Walker L.L.P. (included in Exhibit 5.1).
99.1	Press release dated November 14, 2013 announcing Qwest Communications International Inc. s debt tender offer and CenturyLink, Inc. s concurrent debt offering (incorporated by reference to Exhibit 99.1 to CenturyLink, Inc. s Current Report on Form 8-K filed November 14, 2013).
99.2	Press release dated November 27, 2013 announcing the completion of CenturyLink, Inc. s debt offering and the initial settlement of Qwest Communications International Inc. s debt tender offer.

e Company primarily invests its excess cash in government backed and corporate financial instruments management believes to be of high credit worthiness, which bear lower levels of relative credit risk. The Company relies on rating agencies to ascertain the credit worthiness of its marketable securities and, where applicable, guarantees by the Federal Deposit Insurance Company. The Company sells its products to customers worldwide and generally does not require collateral. The Company maintains a reserve for potential credit losses.

Fair Value of Financial Instruments

Financial instruments consist of current assets (except inventories, income tax receivables and prepaid assets) and certain current liabilities. Current assets (excluding marketable securities which are recorded at fair value) and current liabilities are carried at cost, which approximates fair value.

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 2011, 2010 or 2009.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 restricted common stock awards require the employee to fulfill certain obligations, including remaining employed by the Company for one, two or four years (the vesting period) and in certain cases also require meeting either performance criteria or the Company s stock achieving a certain price. 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 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 compensation awards to its Chief Executive Officer that consisted of a grant of 260,000 shares of restricted stock and a grant of 380,000 shares of phantom stock to be settled in cash. The 260,000 shares of restricted stock and the 380,000 shares of phantom stock will vest 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 consecutive days is considered a market condition. The accounting for the 260,000 shares requires that the fair market value of the shares is determine on the grant day and then this fair market value is expensed straight-line over the derived service period. The accounting for the phantom stock award 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 value 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.

Comprehensive Income

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

The components of accumulated other comprehensive income (loss) is as follows:

	Cumulative Translation Adjustment	Unrealized Holding (Loss) Gain on Marketable Securities	Non-Credit Related Losses on Investments	Accumulated Other Comprehensive Income (Loss)
Balance as of December 27, 2008	$ (766,082)	$ 597,779	$	$ (168,303)
Changes during year	1,320,443	4,442,850	(1,038,177)	4,725,116
Balance as of December 26, 2009	554,361	5,040,629	(1,038,177)	4,556,813
Changes during year	1,886,520	(1,243,327)	785,339	1,428,532
Balance as of December 25, 2010	2,440,881	3,797,302	(252,838)	5,985,345
Changes during year	(1,121,011)	(971,148)	252,838	(1,839,321)
Balance as of December 31, 2011	$ 1,319,870	$ 2,826,154	$	$ 4,146,024

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Impairment of Long-Lived Assets

The Company periodically reviews the carrying value of our long-lived assets to determine if facts and circumstances suggest that they may be impaired or that the amortization or depreciation period may need to be changed. The carrying value of a long-lived asset is considered impaired when the anticipated identifiable undiscounted cash flows from such asset are less than its carrying value. For assets that are to be held and used, impairment is measured based upon the amount by which the carrying amount of the asset exceeds its fair value. The carrying value of the Company s long-lived assets was $32.4 million at December 31, 2011.

Recently Adopted Accounting Pronouncements

Intangibles, Goodwill and Other

In December 2010 and September 2011, the FASB issued ASU 2010-28 and ASU 2011-08 *Intangibles Goodwill and Other*, respectively, which both modify the annual goodwill impairment testing procedures. ASU 2010-28 focuses on the carrying amount of goodwill for purposes of performing step one of the goodwill test and ASU 2011-08 focuses on allowing entities the ability to first assess the qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Both of these updates are effective for annual and interim reporting periods beginning after December 15, 2011 and early adoption is permitted. ASU 2010-28 requires retrospective application. The Company elected not to early adopt either of these updates and does not expect the adoption will have a material impact on its goodwill impairment calculation, financial position or results of operations.

Fair Value Measurement

In May 2011, the FASB issued ASU-2011-04 *Fair Value Measurement* that modifies the fair value measurements and disclosure requirements in U.S. GAAP and IFRS. This newly issued accounting standard clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable inputs. This guidance is effective on a prospective basis for annual and interim reporting periods beginning after December 15, 2011. The Company does not expect that adoption of this standard will have a material impact on its financial position or results of operations.

Statement of Comprehensive Income

In June 2011, the FASB issued ASU 2011-05 *Statement of Comprehensive Income* which (1) eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity; (2) requires the consecutive presentation of the statement of net income and other comprehensive income; and (3) requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. The FASB has deferred the third requirement under this ASU. This amendment does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income nor does this amendment affect how earnings per share is calculated or presented. This guidance is required to be applied retrospectively and is effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not expect that adoption of this standard will have a material impact on its financial position or results of operations.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31, 2011 and December 25, 2010:

	Useful Life	2011	2010
Land		$ 831,387	$ 867,573
Buildings	10 years	5,773,270	5,106,251
Equipment	3-5 years	68,794,841	48,225,704
Leasehold improvements	Life of the lease	15,263,804	14,357,251
Furniture and fixtures	3 years	400,304	404,143
Equipment under construction		1,889,396	16,536,645
		92,953,002	85,497,567
Accumulated depreciation and amortization		(60,583,561)	(52,883,606)
		$ 32,369,441	$ 32,613,961

There were no gains or losses on disposals of long-lived assets in fiscal years 2011, 2010 and 2009. Depreciation expense for the fiscal years 2011, 2010 and 2009 was approximately $7,934,000, $6,565,000 and $5,991,000 respectively.

3. Other Assets and Amounts Due To / Due From Affiliates

Other assets consist of the following as of December 31, 2011 and December 25, 2010:

	2011	2010
Marketable Equity Securities		
AWSC.	$ 1,602,096	$ 4,001,937
WIN	1,709,189	
Non-Marketable Securities Equity Method Investments		
KoBrite	2,401,669	2,698,120
Non-Marketable Securities-Cost Based Investments	1,980,609	
Other	252,525	157,618
	$ 7,946,087	$ 6,857,675

Marketable Equity Securities

As of December 31, 2011 and December 25, 2010 the Company had an investment in AWSC, with a fair market value of $1.6 million and $4.0 million, respectively and an adjusted cost basis of $0.7 million and $0.7 million, respectively. During the second quarter of 2011 the Company sold 300,000 shares of AWSC and recorded a gain of $0.4 million.

The table below shows amounts sold by the Company (revenues) from AWSC:

	2011	2010	2009

AWSC	$ 11,800,000	$ 14,466,000	$ 8,641,000

As of December 31, 2011 the Company was owed $1.1 million from AWSC and $0.2 million from other related parties. As of December 25, 2010, the Company was owed $2.6 million from AWSC.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

One of the Company s Directors is a director of AWSC and several directors and officers of Kopin own amounts ranging from 0.1% to 0.5% of the outstanding stock of AWSC.

As of December 31, 2011 the Company had an investment in WIN, with a fair market value of $1.7 million and an adjusted cost basis of $0. In 2011 WIN completed an initial public offering on a Taiwanese stock market. The investment is now classified as an available-for-sale marketable equity security and its fair market value is determined by reference to quoted market prices. The Company had previously written the investment off. As a result of the reclassification as an available for sale marketable security the Company recorded an unrealized gain of $1.7 million in accumulated other comprehensive income.

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

During the year ended December 25, 2010 the Company sold its investment in Micrel, Inc. for $2.2 million and recorded a gain of $0.7 million and sold shares of AWSC for $1.7 million and recorded a gain of $1.6 million. In addition, in 2010 the Company received and recorded a gain of $0.3 million representing an amount escrowed from the sale of the Company s Kenet investment in 2008.

Non-Marketable Securities Equity Method Investments

Equity (losses) gains in unconsolidated affiliates recorded in the consolidated statement of operations are as follows:

	2011	2010	2009
KoBrite	$ (296,451)	$ (600,299)	$ (341,219)
KTC			824,276
Total	$ (296,451)	$ (600,299)	$ 483,057

The Company has an approximate 12% interest in KoBrite at December 31, 2011. The Company accounts for its interest using the equity method and at December 31, 2011 the carrying value of the investment was $2.4 million. KoBrite s results are recorded one quarter in arrears. 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.

In the year ended December 27, 2008 the Company recorded equity losses of approximately $0.8 million and a loan loss reserve of approximately $1.2 million in connection with $2.0 million it loaned KTC in fiscal 2008. Subsequent to the close of the July 2009 acquisition of additional equity interest in KTC (described in Note 4) the loan was repaid and in 2009 the Company recorded a gain on the loan repayment of approximately $1.2 million and equity in earnings of unconsolidated affiliates of approximately $0.8 million.

Summarized financial information for KTC from the period January 1, 2010 to July 31, 2010 and the year ended December 31, 2009 and for KoBrite for the years ended September 30, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Current assets	$ 12,468,000	$ 8,952,000	$ 19,378,000
Non current assets	15,927,000	15,389,000	18,782,000
Current liabilities	5,397,000	9,052,000	12,487,000
Revenues	7,938,000	12,288,000	13,573,000
Margin loss	(794,000)	(1,316,000)	(389,000)
Loss from operations	(2,685,000)	(3,292,000)	(2,793,000)
Net loss	$ (2,526,000)	$ (3,091,000)	$ (2,410,000)

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KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Non-Marketable Securities Cost Method Investments

In the fourth quarter of 2011 the Company invested approximately $2.0 million in a private company which makes display related products.

The Company has a loan to a non-officer employee for approximately $140,000 at December 31, 2011, which is currently due.

The Company has entered into agreements to sell certain patents which it is not using and that had a carrying value of $0. The total consideration the Company receives for the sale of the patents is a percentage of any sublicense fees, after expenses, the buyer received. In 2011, 2010 and 2009 the Company recorded $0.2 million, $0.8 million and $6.3 million of income, respectively, which represented the Company s share of sublicense fees income. The Company does not expect to receive any material additional amounts from the sales of these patents. There is no additional consideration to be received for the patents sold. The Company continues to evaluate the patents in its portfolio for opportunities to monetize these assets.

4. Business Combinations

Kopin Taiwan Corp

From Kopin Taiwan Corp s (KTC) inception in 2002 through July 2009 the Company owned approximately 35% of KTC. In July 2009, the Company purchased 19,572,468 and 128,226 shares of KTC common stock for approximately $5,975,000 and $300,000, respectively, which increased the Company s ownership to approximately 87%. In 2010, the Company purchased 14,349,809 shares of KTC common stock for approximately $6,150,000 to increase the Company s ownership to approximately 90%.

The consolidated statements of operations for the periods includes the following amounts which were recorded as a result of the transaction in 2009:

	2009
Gain on remeasurement of Kopin s previous investment in KTC	$ 599,000
Repayment of loan by KTC which was previously written-off	2,012,000
Reduction in bad debt allowance	507,000

In fiscal 2008, the Company recorded allowances for possible bad debts for the excess of what KTC owed the Company over what the Company owed KTC. During the nine months ended September 26, 2009 the Company reduced the allowance to $0, resulting in a reduction of selling, general and administrative expenses of approximately $0.5 million.

Prior to July 2009 the Company recorded its investment in KTC under the equity method and had written down the investment to $0. The Company remeasured and wrote-up its investment in KTC by approximately $0.6 million which represented the fair market value of the investment immediately prior to the purchase of the shares in July 2009.

One of the Company s Directors is chairman of KTC and owns approximately 1% of the outstanding common stock of KTC. This director is also an employee and stockholder of MTI and is a member of the Board of Directors of KoBrite.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Included in the Company s consolidated statement of operations for 2009 is $0.6 million of net income from KTC which represents KTC s results of operations from July 30, 2009, the date the Company took a controlling interest in KTC, through December 26, 2009. The following supplemental pro forma disclosures are provided for the year ended December 26, 2009 assuming the acquisition of the controlling interest in KTC had occurred as December 28, 2008 (the first day of the Company s 2009 fiscal year). All intercompany transactions have been eliminated.

	December 26, 2009
Revenues	$ 115,114,000
Net income	16,629,000

Forth Dimension Displays

On January 11, 2011, the Company purchased 100% of the outstanding common stock of Forth Dimension Displays Ltd. (FDD) for approximately $11.0 million plus contingent consideration. In addition to the approximate $11.0 million cash paid there were provisions for contingent consideration if certain revenue milestones were met. The revenue milestones were not met and no additional consideration was owed. Commencing in the first quarter of 2011, the Company consolidated the financial results of FDD. Accounting standards for business combinations require that an acquiring entity measures and recognizes identifiable assets acquired and liabilities assumed at the acquisition date fair value of the acquired company with limited exceptions.

The 2011 purchase of FDD shares was accounted for as follows:

Cash consideration	$ 11,000,000
Contingent consideration	
Total purchase price	$ 11,000,000

The allocation of the purchase price is as follows:

	Jan 11, 2011 (As adjusted (A))
Cash and marketable securities	$ 1,000,605
Accounts receivable	341,156
Inventory	638,331
Plant and equipment	1,500,202
Other identifiable assets	247,711
Customer relationships	3,300,000
Developed technology	1,100,000
Trademark portfolio	220,000
Identifiable liabilities	(1,952,464)
Goodwill	4,604,459
Total	$ 11,000,000

(A) At the acquisition date the Company estimated that the contingent consideration would be $1.3 million and during 2011 it revised its estimate to $0.

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KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s goodwill balance is as follows:

Goodwill, December 26, 2010	$
Goodwill from the acquisition of FDD at Jan. 11, 2011	5,538,491
Reduction in goodwill as a result of change in contingent consideration	(934,032)
Goodwill from the acquisition of FDD at Jan. 11, 2011, as adjusted	4,604,459
Impairment of goodwill	(2,964,114)
Foreign currency translation	24,112
Goodwill, December 31, 2011	$ 1,664,457

The Company performs impairment tests of goodwill at its reporting unit level. The Company conducts its annual goodwill impairment test on the last day of each fiscal year.

On December 31, 2011, the Company performed an impairment 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. This analysis resulted in the determination that a potential impairment was present. As a result of this analysis, the Company was required to determine the fair value of its finite-lived intangible assets and compare their respective fair values to their carrying values. The fair value of the acquired customer relationships is based on the benefit derived from the incremental revenue and related cash flows as a direct result of the customer relationships. The fair values of the acquired developed technology and trademark portfolio were determined by estimating the royalty expense that would be expected to be paid for the technology and trade name portfolio had they not been owned by the Company using market participant royalty rates and discounting the expected expense that is avoided given the Company s ownership of these intangible assets. These forecasted cash flows are discounted to present value using an appropriate discount rate. As a result, the carrying values of the finite-lived intangible assets exceeded their fair values and the Company recorded impairments of $1.5 million related to customer relationships, $0.4 million related to developed technology, and $57,000 related to trademark portfolio.

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 December 31, 2011. 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 its relatively niche business, the income approach provided the most accurate method of valuation.

Based on this analysis, the Company recorded a $3.0 million goodwill impairment charge as of and for the year ended December 31, 2011.

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.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 $170,000 and $665,000 in amortization for the three and twelve months ended December 31, 2011 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.

The results of operations of the FDD acquisition have been included in the consolidated statements of operations from its acquisition date of January 11, 2011. FDD contributed approximately $4.9 million of net revenue to the consolidated results of operations for the fiscal year ended December 31, 2011. FDD s net loss from operations included in the consolidated results of operation for the year ended December 31, 2011 was $6.9 million. The transaction related costs associated to the FDD acquisition were considered immaterial and included within selling, general and administrative expense for the fiscal year ended December 31, 2011.

The unaudited pro forma financial results for the fiscal year ended December 25, 2010 combine the unaudited historical results of the Company along with the unaudited historical results of FDD. The results include the effects of unaudited pro forma adjustments as if FDD was acquired on December 27, 2009 (the first day of the Company s fiscal year 2010). There were no material nonrecurring pro forma adjustments in the calculation of revenue or earnings. The pro forma financial results presented below do not include any anticipated synergies or other expected benefits of the acquisition. The results of operations of FDD for the period January 1, 2011 through January 10, 2011 were immaterial. These results are presented for informational purposes only and are not necessarily indicative of future operations (in thousands, except per share amounts):

	Three Months Ended December 25, 2010	Twelve Months Ended December 25, 2010
Revenue	$ 34,590,000	$ 126,049,000
Net Income	$ 4,637,000	$ 8,497,000

5. Financial Instruments

Fair Value Measurements

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

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

		Fair Value Measurement at December 31, 2011 Using:		
	Total	Level 1	Level 2	Level 3
Money Markets and Cash 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	$

		Fair Value Measurement at December 25, 2010 Using:		
	Total	Level 1	Level 2	Level 3
Money Markets and Cash Equivalents	$ 49,834,547	$ 49,834,547	$	$
U.S. Government Securities	24,194,630	9,806,380	14,388,250	
Corporate Debt	23,212,833		23,212,833	
Certificates of Deposit	13,705,380		13,705,380	
Advanced Wireless Semiconductor Company	4,001,937	4,001,937		
	$ 114,949,327	$ 63,642,864	$ 51,306,463	$

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 (3 month Libor). The Company determines the fair market values of these corporate debt instruments through the use of a model which incorporates the 3 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.

Marketable Debt Securities

Investments in available-for-sale marketable debt securities are as follows at December 31, 2011 and December 25, 2010:

	Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	
	2011	2010	2011	2010	2011	2010	2011	2010
U.S. government and agency backed securities	$ 31,480,482	$ 23,899,218	$ 665,171	$ 295,412	$	$	$ 32,145,653	$ 24,194,630
Corporate debt and certificates of deposits	30,879,717	36,949,546			(701,983)	(31,333)	30,177,734	36,918,213
Total	$ 62,360,199	$ 60,848,764	$ 665,171	$ 295,412	$ (701,983)	$ (31,333)	$ 62,323,387	$ 61,112,843

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The contractual maturity of the Company s marketable debt securities is as follows at December 31, 2011:

	Less than One year	One to Five years	Greater than Five years	Total
U.S. government and agency backed securities	$ 5,301,740	$ 25,061,877	$ 1,782,036	$ 32,145,653
Corporate debt and certificates of deposits	21,089,896	8,405,338	682,500	30,177,734
Total	$ 26,391,636	$ 33,467,215	$ 2,464,536	$ 62,323,387

Other-than-Temporary Impairments

The Company reviews its marketable debt securities on a quarterly basis for the presence of other-than-temporary impairment (OTTI).

If the Company determines that an OTTI has occurred it 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 noncredit-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.

Included in other income and expense is an impairment charge on investments in corporate debt instruments of $0.2 million and $0.9 million for fiscal years 2011 and 2010, respectively.

6. Stockholders Equity and Stock-Based Compensation

In December 2010 the Company s Board of Directors authorized the repurchase of up to $15 million of the Company s common stock in open market or negotiated transactions through December 2012. Since the plan s inception through December 31, 2011 the Company has purchased 1,069,162 shares of its common stock for $4,414,626.

The Company has stock-based awards outstanding under several plans. In 2001, the Company adopted a 2001 Equity Incentive Plan (the Equity Plan) and a 2001 Supplemental Equity Plan (the Supplemental Plan). The Equity Plan authorized 7,100,000 shares of common stock, to be issued to employees, non-employees, and members of the Board of Directors (the Board). The Supplemental Plan authorized 1,300,000 shares of common stock, to be issued to employees and certain non-employees and only permits the issuance of nonqualified stock options and restricted common stock awards. The Equity Plan and the Supplemental had ten year lives and therefore no new equity awards may be issued under these plans. In 2010 the Company adopted a 2010 Equity Incentive Plan (the 2010 Equity Plan) which authorized the issuance of shares of common stock to employees, non-employees, and the Board. The 2010 Equity Plan has been subsequently amended to increase the number of authorized shares. The number of shares authorized is 1,800,000 plus the number of shares of common stock which were available for grant under the Equity Plan, the number of shares of common stock which were the subject of awards outstanding under the Equity Plan and are forfeited, terminated, cancelled or expire after the adoption of the 2010 Equity Plan and the number of shares of common stock delivered to the Company either in exercise of a Equity Plan award or in satisfaction of a tax withholding obligation. The option price of statutory incentive stock options shall not be less than 100% of the fair market value of the stock at the date of grant, or in the case of certain statutory incentive stock options, at 110% of the fair market value at the time of the grant. The

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

option price of nonqualified stock options is determined by the Board or Compensation Committee. Options must be exercised within a ten-year period or sooner if so specified within the option agreement. The term and vesting period for restricted stock awards and options granted under the 2010 Equity Plan are determined by the Board s compensation committee.

The Company has available approximately 0.6 million shares of common stock available for issuance under the Company s 2010 Equity Plan in excess of shares of common stock which have already been reserved for under previously issued equity awards.

Stock Options

A summary of stock option activity under the stock award plans as of December 31, 2011 and changes during the twelve month period is as follows:

	2011	
	Shares	Weighted Average Exercise Price
Balance, beginning of year	2,899,261	$ 6.45
Options forfeited/cancelled	(976,236)	9.19
Options exercised	(19,700)	3.68
Balance, end of year	1,903,325	$ 5.07
Exercisable, end of year	1,903,325	

The following table summarizes information about stock options outstanding and exercisable at December 31, 2011:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.01 $ 3.50	130,000	4.00	$ 3.49	130,000	$ 3.49
$ 3.75 $ 4.82	1,077,010	1.60	4.45	1,077,010	4.45
$ 5.00 $ 8.72	596,215	2.13	5.70	596,215	5.70
$10.00 $10.42	100,100	4.00	10.00	100,100	10.00
	1,903,325	2.06	$ 5.07	1,903,325	$ 5.07
Aggregate intrinsic value on December 31, 2011	$ 78,637			$ 78,637	

No stock options were issued in 2011, 2010 or 2009. The intrinsic value of options exercised in 2011, 2010 and 2009 was approximately $23,000, $41,000 and $81,000, respectively. In June 2010 the Company issued a warrant to purchase 200,000 shares of the Company s stock at $3.49. The warrant vests ratably over a two year period and as of December 31, 2011 150,000 shares had vested. The intrinsic value of the warrant at December 31, 2011 was approximately $78,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash received from option exercises under all share-based payment arrangements was approximately $0.1 million and $0.1 million for fiscal years 2011 and 2010, respectively. No tax benefits were realized during the three year period ended 2011 due to the existence of tax net operating loss carryforwards.

NonVested Restricted Common Stock

The Company has issued shares of nonvested restricted common stock to certain employees. Each award requires 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 meeting performance criteria. A summary of the activity for nonvested restricted common stock awards as of December 31, 2011 and changes during the twelve months then ended is presented below:

	Shares	Weighted Average Grant Fair Value
Balance December 25, 2010	2,033,607	$ 3.79
Granted	1,891,012	4.12
Forfeited	(128,988)	4.17
Vested	(897,949)	3.13
Balance, December 31, 2011	2,897,682	$ 4.20

The forfeitures in 2011 were primarily due to fact that the performance criteria were not met related to these awards.

Stock-Based Compensation

The following table summarizes stock-based compensation expense related to employee stock options and nonvested restricted common stock awards for the fiscal years 2011, 2010 and 2009 (no tax benefits were recognized):

	2011	2010	2009
Cost of product revenues	$ 613,274	$ 590,950	$ 475,461
Research and development	577,514	428,123	231,890
Selling, general and administrative	2,732,840	1,564,655	1,176,989
Total	$ 3,923,628	$ 2,583,728	$ 1,884,340

Total unrecognized compensation expense for the nonvested restricted common stock as of December 31, 2011 totals $7,388,000 and is expected to be recognized over a period of 3 years.

7. Concentrations of Risk

Financial instruments that potentially subject the Company to concentration of credit risk other than marketable securities consist principally of trade accounts receivable. Trade receivables are primarily derived from sales to manufacturers of consumer electronic devices and wireless components or military applications.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Ongoing credit evaluations of customers financial condition are performed and collateral, such as letters of credit, are generally not required. The following table depicts the customer s trade receivable balance as a percentage of gross trade receivables as of the end of the year indicated:

Customer	Percent of Gross Accounts Receivable 2011	2010
Skyworks Solutions, Inc.	28%	24%
Advanced Wireless Semiconductor Co.	*	14
DRS Technologies	*	11
Raytheon Company	14	11

Sales to significant non-affiliated customers, for fiscal years 2011, 2010 and 2009, as a percentage of total revenues is shown in the table below. Note the caption Military Customers in Total in the table below includes Raytheon and DRS Technologies but excludes research and development contracts. (The symbol * indicates that sales to that customer were less than 10% of the Company s total revenues.)

	Sales as a Percent of Total Revenue Fiscal Year		
Customer	2011	2010	2009
Skyworks Solutions, Inc.	28%	25%	20%
Advanced Wireless Semiconductor Company	9	12	8
DRS Technologies	*	*	19
Raytheon Company	12	18	14
Military Customers in Total	30	33	45
United States Government Funded Research and Development Contracts	4	3	6

Skyworks Solutions, Inc. (Skyworks Solutions) also uses the foundry services of Advanced Wireless Semiconductor Company (AWSC) to process the Company s HBT transistor wafers on their behalf. The Company sells HBT transistor wafers directly to AWSC for eventual resale by AWSC to Skyworks Solutions. AWSC also purchases HBT transistor wafers from the Company for the processing and sale to other customers. The Company does not know exactly how many HBT transistor wafers sold to AWSC are for eventual delivery to Skyworks Solutions but believes the sales to Skyworks Solutions and AWSC should be aggregated for purposes of assessing the concentration of risk.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Income Taxes

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

	Fiscal Year 2011	2010	2009
Current			
Federal	$ 150,000	$ 141,000	$ 251,000
State	242,000	231,000	468,000
Foreign	333,000	(120,000)	(29,000)
Total current provision	725,000	252,000	690,000
Deferred			
Federal	3,977,000	10,253,000	6,532,000
State	(30,000)	513,000	1,414,000
Foreign	(467,000)	(700,000)	(100,000)
Change in valuation allowance	(7,746,000)	(10,066,000)	(7,846,000)
Total deferred provision	(4,266,000)		
Total (benefit) provision for income taxes	$ (3,541,000)	$ 252,000	$ 690,000

Net operating losses utilized in 2011, 2010 and 2009 to offset federal and state taxes were $2,698,000, $2,743,000 and $6,923,000, respectively.

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

	Fiscal Year 2011	2010	2009
Tax provision at federal statutory rates	$ 355,000	$ 3,212,000	$ 6,817,000
State tax liability	158,000	150,000	1,718,000
Foreign deferred	663,000	(203,000)	10,000
Goodwill	771,000		
Nondeductible expenses	415,000	(35,000)	(40,000)
Utilized/expired net state operating loss carryforwards		(28,000)	(134,000)
Provision to tax return adjustments and state tax rate change	1,191,000	544,000	(1,432,000)
Tax credits	(858,000)	(312,000)	(636,000)
Non-deductible equity compensation	1,542,000	2,630,000	3,882,000
Other, net	(32,000)	(47,000)	(1,649,000)
Change in valuation allowance	(7,746,000)	(5,659,000)	(7,846,000)
	$ (3,541,000)	$ 252,000	$ 690,000

Pretax foreign (losses) earnings were approximately $(4,559,000), 237,000 and ($401,000) for fiscal years 2011, 2010 and 2009, respectively. The Company has not received remittance of any earnings from its foreign operations nor does it intend to in the foreseeable future. Accordingly, U.S. income taxes were not provided for approximately $10.2 million of undistributed earnings of the Company s Korean subsidiary and $6.5 million of undistributed earnings of the Company s Taiwan subsidiary.

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred taxes are provided to recognize the effect of temporary differences between tax and financial reporting. Deferred income tax assets and liabilities consist of the following:

	Fiscal Year	
	2011	**2010**
Deferred tax liability:		
Intangible asset	$ (508,000)	
Deferred tax assets:		
Federal net operating loss carryforwards	3,398,000	6,137,000
State net operating loss carryforwards	13,000	
Foreign net operating loss carryforwards	5,533,000	4,080,000
Equity awards	886,000	2,491,000
Tax credits	5,599,000	4,576,000
Equipment	5,068,000	5,300,000
Investments	3,867,000	3,818,000
Other	3,903,000	4,342,000
Net deferred tax assets	27,759,000	30,744,000
Valuation allowance	(23,493,000)	(30,744,000)
	$ 4,266,000	$

As of December 31, 2011, the Company has available for tax purposes federal net operating loss carryforwards (NOLs) of $9.7 million expiring through 2021. The Company has recognized a full valuation allowance on its net deferred tax assets excluding the net deferred tax assets of KTC, as the Company has concluded that such assets are not more likely than not to be realized. Based upon KTC s 2011 results of operations and 2012 projected results of operations the Company concluded that it was more likely than not that the benefit of the net deferred tax assets would be realized and removed the valuation allowance. The $7.7 million decrease in valuation allowance during fiscal year 2011 was due to the reversal of the $4.9 million KTC valuation allowance partially offset by a net decrease in deferred tax assets of approximately $1.7 million and utilization of net operating losses of $1.1 million. The change in valuation allowance during fiscal year 2010 was due to a net decrease in deferred tax assets of approximately $2.5 million and utilization of net operating losses of $3.1 million. 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 approximated $12.9 million at December 31, 2011.

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.

International jurisdictions have statutes of limitations generally ranging from 3 to 7 years after filing of the respective return. Years still open to examination by tax authorities in major jurisdictions include Korea (2006 onward), Japan (2006 onward), Hong Kong (2008 onward) and Taiwan (2010 onward) and UK returns (2011 onwards). The Company is not currently under examination in these jurisdictions.

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

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recognized, and is updated as additional information becomes available. The Company s estimate of future costs to satisfy warranty obligations is based primarily on historical warranty expense experienced and a provision for potential future product failures. Changes in the accrued warranty for fiscal years 2011 and 2010 are as follows:

	Fiscal Year Ended	
	December 31, 2011	December 25, 2010
Beginning Balance	$ 1,300,000	$ 1,600,000
Additions	1,442,000	757,000
Claim and reversals	(1,424,000)	(1,057,000)
Ending Balance	$ 1,318,000	$ 1,300,000

10. Employee Benefit Plan

The Company has an employee benefit plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. In 2011, the plan allowed employees to defer an amount of their annual compensation up to a current maximum of $16,500 if they are under the age of 50 and $22,000 if they are over the age of 50. The Company matches 50% of all deferred compensation up to a maximum of 3% of each employee s annual compensation. The amount charged to operations in connection with this plan was approximately $229,000, $238,000 and $200,000 in fiscal years 2011, 2010 and 2009, respectively.

11. Commitments and Contingencies

Leases

The Company leases facilities located in Taunton and Westborough, Massachusetts, Scotts Valley, California, and Dalgety Bay, Scotland under non-cancelable operating leases. The Taunton leases expire in 2012 and 2020. The Westborough lease expires in 2023. The Scotts Valley lease terminates in 2012.The Dalgety Bay lease expires in 2013. Substantially all real estate taxes, insurance and maintenance expenses under these leases are the Company s obligations and are expensed as incurred and were immaterial. The following is a schedule of minimum rental commitments under non-cancelable operating leases at December 31, 2011:

Fiscal Year ending,	Amount
2012	1,031,000
2013	496,000
2014	461,000
2015	533,000
2016	569,000
Thereafter	1,897,000
Total minimum lease payments	$ 4,987,000

Amounts incurred under operating leases are recorded as rent expense on a straight-line basis and aggregated approximately $1.8 million in fiscal year 2011, $1.6 million in fiscal year 2010 and $1.5 million in fiscal year 2009.

Other Agreements

The Company has entered into various license agreements which require payment of royalties based upon a set percentage of product sales, subject in some cases, to certain minimum amounts. Total royalty expense approximated $18,000, $27,000 and $20,000, respectively, in fiscal years 2011, 2010 and 2009.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has a purchase and supply agreement with a significant HBT customer that expires in July 2012, excluding a last time buy option contained in the agreement. Under the terms of this agreement, the Company agreed to maintain capacity levels for manufacturing HBT wafers and the Company committed to a pricing schedule under certain circumstances. The agreement also requires the Company to give prior notice if the Company exits its HBT product line. In consideration for this agreement the customer agreed to source a certain percentage of its HBT wafer needs from the Company subject to the customer s right to source HBT wafers from other sources if the Company is unable to meet their requirements under certain circumstances. The Company agreed that failure to meet its supply obligations under the agreement would allow the Company s customer to obtain court ordered specific performance and if the Company does not perform it could then be liable for monetary damages up to a maximum of $40.0 million. To date the Company has met its commitments under this agreement.

Included in Billings in excess of revenue earned is $2.2 million which was received in 2008 from a state grant. Amounts from this grant are earned by achieving certain employment levels and other conditions through 2017. In the event the Company does not achieve these employment levels some or all of the $2.2 million will be refunded. The agreement also contains repayment provisions which require us to repay certain amounts back to the state if the Company fails to achieve certain employment milestones after years three and five of the agreement, or if we move certain parts of the Company s operations out of the state. Based on current the Company has estimated that it may be required to repay $1.0 million to the state in 2012.

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.

13. 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).

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Effective as of January 11, 2011, when the Company acquired FDD, FDD is now a reportable segment. The Company has four operating and reportable segments: i) Kopin US, which includes the operations in the United States and the Company s equity method investments, ii) Kowon iii) KTC and iv) FDD (commencing in 2011). The following table presents the Company s reportable segment results for the years ended 2011, 2010 and 2009:

	Kopin U.S.	Kowon	KTC	FDD	Adjustments	Total
2011						
Revenues	$ 125,961,000	$ 10,989,000	$ 20,995,000	$ 4,874,000	$ (31,674,000)	$ 131,145,000
Net income (loss) attributable to the controlling interest	4,887,000	134,000	6,117,000	(6,878,000)	(662,000)	3,598,000
Total assets	183,555,000	19,287,000	29,618,000	6,657,000	(44,553,000)	194,564,000
Long lived assets	14,022,000	2,689,000	14,624,000	1,038,000	(4,000)	32,369,000
2010						
Revenues	$ 117,476,000	$ 11,603,000	$ 8,766,000	$	$ (17,459,000)	$ 120,386,000
Net income (loss) attributable to the controlling interest	8,577,000	(112,000)	433,000		36,000	8,934,000
Total assets	174,973,000	19,992,000	19,652,000		(22,521,000)	192,096,000
Long lived assets	15,945,000	2,950,000	13,723,000		(4,000)	32,614,000
2009						
Revenues	$ 113,183,000	$ 8,644,000	$ 3,346,000	$	$ (10,518,000)	$ 114,655,000
Net income (loss) attributable to the controlling interest	19,642,000	(1,095,000)	723,000		173,000	19,443,000
Total assets	168,603,000	19,316,000	9,691,000		(14,386,000)	183,224,000
Long lived assets	13,906,000	2,969,000	3,882,000		(4,000)	20,753,000

The Company has $1.7 million of goodwill related to its FDD segment.

The adjustments to reconcile to the consolidated financial statement total revenue, net income (loss) and total assets include the elimination of intercompany sales and intercompany receivables and the recording of the noncontrolling interest in Kowon and KTC.

Geographical revenue information for the three years ended December 31, 2011, December 25, 2010 and December 26, 2009 was based on the location of the customers and is as follows:

	Fiscal Year					
	2011		2010		2009	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
Asia-Pacific	$ 28,246,000	22%	$ 27,977,000	23%	$ 19,822,000	17%
Americas	102,899,000	78%	92,409,000	77%	94,833,000	83%
	$ 131,145,000	100%	$ 120,386,000	100%	$ 114,655,000	100%

Revenues by product group consisted of approximately the following:

	Fiscal Year		
	2011	2010	2009
III-V	$ 66,486,000	$ 62,244,000	$ 46,452,000

Display	64,659,000	58,142,000	68,203,000
Total revenues	$ 131,145,000	$ 120,386,000	$ 114,655,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-lived assets by geographic area are as follows:

	Fiscal Years	
	2011	**2010**
United States of America	$ 14,022,000	$ 15,944,000
United Kingdom	1,038,000	
Republic of Korea	2,685,000	2,947,000
Taiwan, ROC	14,624,000	13,723,000
	$ 32,369,000	$ 32,614,000

14. Selected Quarterly Financial Information (Unaudited)

The following tables present Kopin s quarterly operating results for the fiscal years ended December 31, 2011 and December 25, 2010. The information for each of these quarters is unaudited and has been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the unaudited consolidated quarterly results when read in conjunction with Kopin s audited consolidated financial statements and related notes. These operating results are not necessarily indicative of the results of any future period.

Quarterly Periods During Fiscal Year Ended December 31, 2011:

	Three months ended March 26, 2011	**Three months ended June 25, 2011**	**Three months ended September 24, 2011**	**Three months ended December 31, 2011**
		(In thousands, except per share data)		
Revenue	$ 34,934	$ 31,431	$ 29,566	$ 35,213
Gross profit (2)	10,974	10,482	9,467	12,431
Net income attributable to the controlling interest	$ 2,066	$ 802	$ 797	$ (67)
Net income per share (1):				
Basic	$ 0.03	$ 0.01	$ 0.01	$ 0.00
Diluted	$ 0.03	$ 0.01	$ 0.01	$ 0.00
Shares used in computing net income per share:				
Basic	64,737	64,529	64,292	64,065
Diluted	65,655	66,775	65,441	64,065

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

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

KOPIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Quarterly Periods During Fiscal Year Ended December 25, 2010:

	Three months ended March 27 2010	Three months ended June 26 2010	Three months ended September 25 2010	Three months ended December 25, 2010 (3)
		(In thousands, except per share data)		
Revenue	$ 25,454	$ 30,189	$ 31,602	$ 33,140
Gross profit (2)	6,338	7,275	10,054	11,731
Net income attributable to the controlling interest	$ 1,037	$ 1,861	$ 1,361	$ 4,676
Net income per share (1):				
Basic	$ 0.02	$ 0.03	$ 0.02	$ 0.07
Diluted	$ 0.02	$ 0.03	$ 0.02	$ 0.07
Shares used in computing net income per share:				
Basic	66,588	66,626	66,115	64,751
Diluted	67,311	67,357	66,779	65,399

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

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

(3) The net income attributable to the controlling interest for the fourth quarter of fiscal year 2010 was impacted by gains of $1.4 million related to reimbursement of insurance claims.

SIGNATURES

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

March 15, 2012

KOPIN CORPORATION

By: /s/ JOHN C.C. FAN
John C.C. Fan

Chairman of the Board, Chief Executive Officer, President and Director

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

Signature	Title	Date
/s/ JOHN C.C. FAN **John C.C. Fan**	Chairman of the Board, Chief Executive Officer, President and Director (Principal Executive Officer)	March 15, 2012
/s/ JAMES BREWINGTON **James Brewington**	Director	March 15, 2012
/s/ DAVID E. BROOK **David E. Brook**	Director	March 15, 2012
/s/ MORTON COLLINS **Morton Collins**	Director	March 15, 2012
/s/ ANDREW H. CHAPMAN **Andrew H. Chapman**	Director	March 15, 2012
/s/ CHI CHIA HSIEH **Chi Chia Hsieh**	Director	March 15, 2012
/s/ MICHAEL J. LANDINE **Michael J. Landine**	Director	March 15, 2012
/s/ RICHARD A. SNEIDER **Richard A. Sneider**	Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2012

KOPIN CORPORATION

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Fiscal Years Ended December 31, 2011, December 25, 2010 and December 26, 2009

Description	Balance at Beginning of Year	Additions Charged to Income	Deductions from Reserve	Balance at End of Year
Reserve deducted from assets allowance for doubtful accounts:				
2009	$ 1,171,000	114,000	(702,000)	583,000
2010	583,000	156,000	(2,000)	737,000
2011	737,000	182,000	(406,000)	513,000

INDEX TO EXHIBITS

Exhibits		Sequential page number
3.1	Amended and Restated Certificate of Incorporation	(2)
3.2	Amendment to Certificate of Incorporation	(5)
3.3	Amendment to Certificate of Incorporation	(5)
3.4	Fourth Amended and Restated By-laws	(8)
4	Specimen Certificate of Common Stock	(1)
10.1	Form of Employee Agreement with Respect to Inventions and Proprietary Information	(1)
10.2	Amended and Restated 1992 Stock Option Plan	(2)*
10.3	1992 Stock Option Plan Amendment	(5)*
10.4	1992 Stock Option Plan Amendment	(6)*
10.5	Kopin Corporation 2001 Equity Incentive Plan	(7)*
10.6	Kopin Corporation 2001 Equity Incentive Plan Amendment	(9)*
10.7	Kopin Corporation 2001 Equity Incentive Plan Amendment	(10)*
10.8	Kopin Corporation 2001 Equity Incentive Plan Amendment	(11)*
10.9	Kopin Corporation 2001 Equity Incentive Plan Amendment	(13)*
10.10	Kopin Corporation 2001 Supplemental Equity Incentive Plan	(6)*
10.11	Form of Key Employee Stock Purchase Agreement	(1)*
10.12	License Agreement by and between the Company and Massachusetts Institute of Technology dated April 22, 1985, as amended	(1)
10.13	Facility Lease, by and between the Company and Massachusetts Technology Park Corporation, dated October 15, 1993	(3)
10.14	Joint Venture Agreement, by and among the Company, Kowon Technology Co., Ltd., and Korean Investors, dated as of March 3, 1998	(4)
10.15	Seventh Amended and Restated Employment Agreement between the Company and Dr. John C.C. Fan, dated as of December 8, 2010	(16)
10.16	Kopin Corporation Form of Stock Option Agreement under 2001 and 2010 Equity Incentive Plans	(12)*
10.17	Kopin Corporation 2001 and 2010 Equity Incentive Plan Form of Restricted Stock Purchase Agreement	(12)*
10.18	Kopin Corporation Fiscal Year 2012 Incentive Bonus Plan	*
10.19	Kopin Corporation Stock Purchase Agreement of 19,572,468 shares of Kopin Taiwan Corporation, (KTC) common stock	(14)
10.20	Kopin Corporation 2010 Equity Incentive Plan	(15)
21.1	Subsidiaries of Kopin Corporation	
23.1	Consent of Independent Registered Public Accounting Firm	
31.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
31.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

Exhibits		Sequential page number
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
101	The following materials from the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements, tagged as blocks of text	

* Management contract or compensatory plan required to be filed as an Exhibit to this Form 10-K.
(1) Filed as an exhibit to Registration Statement on Form S-1, File No. 33-45853, and incorporated herein by reference.
(2) Filed as an exhibit to Registration Statement on Form S-1, File No. 33-57450, and incorporated herein by reference.
(3) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 31, 1993 and incorporated herein by reference.
(4) Filed as an exhibit to Annual Report on Form 10-Q for the quarterly period ended June 27, 1998 and incorporated herein by reference.
(5) Filed as an exhibit to Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000 and incorporated herein by reference.
(6) Filed as an exhibit to Registration Statement on Form S-8, filed on November 13, 2001 and incorporated herein by reference.
(7) Filed as an appendix to Proxy Statement filed on April 20, 2001 and incorporated herein by reference.
(8) Filed as an exhibit to Current Report on Form 8-K filed on December 12, 2008 and incorporated herein by reference.
(9) Filed as an exhibit to Registration Statement on Form S-8 filed on August 16, 2002 and incorporated herein by reference.
(10) Filed as an exhibit to Registration Statement on Form S-8 filed on March 15, 2004 and incorporated herein by reference.
(11) Filed as an exhibit to Registration Statement on Form S-8 filed on May 10, 2004 and incorporated herein by reference.
(12) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 25, 2004 and incorporated herein by reference.
(13) Filed as an exhibit to Registration Statement on Form S-8 filed on April 15, 2008 and incorporated herein by reference.
(14) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 26, 2009 and incorporated by reference herein.
(15) Filed with the Corporation s Definitive Proxy Statement on Schedule 14 filed as of March 17, 2010 and incorporated by reference herein.
(16) Filed as an exhibit to Annual Report on Form 10-K for the fiscal year ended December 25, 2010 and incorporated by reference herein.