KOPIN CORP
Form 10-K
March 14, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 29, 2018
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 incorporation or organization)	(I.R.S. Employer Identification No.)

125 North Drive, Westborough, MA	01581-3335
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (508) 870-5959
Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value $.01 per share
(Title of Class)
Name of each exchange on which registered Nasdaq Global Market
Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer," "smaller reporting company," and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	¨	Accelerated Filer x
Non-Accelerated Filer	¨	Smaller Reporting Company ¨
		Emerging Growth Company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. Yes ¨ No ¨

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

As of June 30, 2018 (the last business day of the registrant's most recent second fiscal quarter), the aggregate market value of outstanding shares of voting stock held by non-affiliates of the registrant was $164,583,000.

As of March 8, 2019, 76,282,062 shares of the registrant’s Common Stock, par value $.01 per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement relating to its 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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Part I
Forward Looking Statements

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

We have identified the following important factors that could cause actual results to differ materially from those discussed in our forward-looking statements. Such factors may be in addition to the risks described in Part I, Item 1A, "Risk Factors;" Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; and other parts of this Annual Report on Form 10-K. These factors include: our ability to continue as a going concern; our ability to obtain raw materials and other goods as well as services from our suppliers as needed; our intent to continue focusing our development efforts on proprietary wearable computing systems; the potential for customers to choose our competitors as their supplier; our expectation that we will have negative cash flow from operating activities in 2019; our ability to prosecute and defend our proprietary technology aggressively or successfully; our ability to retain personnel with experience and expertise relevant to our business; our ability to invest in research and development to achieve profitability even during periods when we are not profitable; our ability to continue to introduce new products in our target markets; the degree to which our wearable technology is embraced by consumers and commercial users; our ability to develop and expand our wearable technologies and to market and license our concept systems and components; our ability to generate revenue growth and positive cash flow, and reach profitability; the strengthening of the U.S. dollar and its effects on the price of our products in foreign markets; the impact of new regulations and customer demands relating to conflict minerals; our ability to obtain a competitive advantage in the wearable technologies market through our extensive portfolio of patents, trade secrets and non-patented know-how; our ability to grow within our targeted markets; smartphone makers' intent to create products that work as a complement to smartphones or that will eventually replace smartphones with more convenient configurations; the importance of small form factor displays in the development of military, consumer, and industrial products such as thermal weapon sights, safety equipment, virtual and augmented reality gaming, training and simulation products and metrology tools; our ability to successfully offer and market our SOLOS smart glasses directly via the Internet; our ability to offer Golden-i Infinity through value added resellers; the suitability of our properties for our needs for the foreseeable future; our expectation not to pay cash dividends for the foreseeable future and to retain earnings for the development of our businesses; our expectation that we will expend between $1.5 million and $2.0 million on capital expenditures over the next twelve months; if we do not soon achieve and maintain positive cash flow and profitability, our financial condition will ultimately be materially adversely affected, and we will be required to reduce expenses, including our investments in research and development or raise additional capital; our ability to support our operations and capital needs for at least the next twelve months through our available cash resources; our expectation that we will incur taxes based on our foreign operations in 2019; and our expectation that we will have a state tax provision in 2019.

Item 1. Business

Introduction

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

The components that we offered for sale in 2018 consisted of our proprietary miniature active-matrix liquid crystal displays (“AMLCD”), liquid crystal on silicon (“LCOS”) displays / Spatial Light Modulators (“SLMs”), organic light emitting diode (“OLED”) displays, application specific integrated circuits (“ASICs”), backlights, optical lenses and audio

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integrated circuits ("IC"). We refer to our AMLCD as "CyberDisplay®", our LCOS displays/SLMs as "Time Domain Imaging™ technology", our OLED as "Lightning™ Displays" and our audio IC as "Whisper® Chip." Our transmissive AMLCDs are designed in Westborough, Massachusetts, U.S.A., have initial manufacturing steps performed in Asia and then are completed in our facilities in Westborough, Massachusetts, U.S.A. Our reflective LCOS microdisplays are designed in Dalgety Bay, Scotland, U.K., have initial manufacturing steps performed in Asia and are completed in our facilities in Dalgety Bay, Scotland, U.K. Our OLED displays are designed in our San Jose, California, U.S.A. facility and have initial manufacturing steps performed in Asia and then are completed by us in our facilities in Westborough, Massachusetts, U.S.A. In 2019 we anticipate that our OLED displays will be completely manufactured in Asia. Our displays provide either color or monochrome images and are offered in a variety of sizes and resolutions. The display driver ASICs we offer are designed in our San Jose, California facility and are the electronic interfaces between our displays and the products into which the displays are incorporated. The optical lenses and backlights we offer are based on either our proprietary designs or designs we license from third parties. Our licensed optical lenses are subject to agreements that have termination dates and are therefore subject to renewals. Our audio technologies are developed at our San Jose, California audio lab. The Whisper Chip, ASICs, optical lenses, and backlights are manufactured by third parties based on our purchase orders.

Our components are sold separately or in various levels of integration. For example, we offer a display as a single product, a display module which includes a display, an optical lens and backlight contained in either plastic or metal housings, a binocular display module which has two displays, lenses and backlights, and a higher-level assembly which has additional components for military applications. Current products which include our components are augmented reality consumer wearable devices for sports and fitness and virtual reality consumer products for recreational and sport drones; military devices such as thermal weapon sights and fighter pilot helmets; and industrial and public safety devices such as firefighter thermal camera enabled masks. Our reflective display products are also configured as SLMs and are used in industrial equipment for 3D optical inspection. Our OLED display was first introduced in 2017 and our sales of OLED displays in 2018 have primarily been for sample purposes or customer development programs.

We have designed and offered systems that are focused on the emerging enterprise and consumer markets for head-worn, hands-free voice and gesture controlled wireless computing and communication devices. Our systems connect via a wire, Bluetooth or WiFi to a smartphone or similar device in order to access or transmit information from or to the Internet or devices that are in close proximity. A feature of our enterprise systems is the ability to contact a resource, referred to as the "Remote Expert", who can help in resolving problems. The system user and the Remote Expert can be in different locations so while the system user may be in a hazardous location the Remote Expert may be in a relatively safe location. This allows companies that purchase enterprise systems the ability to leverage their in-house experts to the technicians in the field. We currently license our systems under agreements which may include a royalty payable to us and a purchase and supply agreement which requires our customer to buy our components for the system. These systems include our components and a variety of commercially available software packages and our proprietary software. Our business model is to license our concept systems or technologies to branded OEM customers who wish to develop and market head-worn products for both mobile enterprise and consumer applications.

We offer SOLOS® smart glasses, which are sunglasses with AR capabilities designed for the health and fitness market. SOLOS is our proprietary design and contains our display, optic, and ASIC technologies and internally developed software. SOLOS smart glasses are hands-free head-worn devices that obtain information from sensors or the internet via a smartphone and displays the information on the sunglass lens. SOLOS smart glasses uses Bluetooth, WiFi or ANT+ to connect to devices. For example, a cyclist user can see the information being provided by the bike sensors such as speed, cadence or watts produced, can access the Internet for GPS location or can access an Internet training application. SOLOS is designed in our Westborough, Massachusetts U.S.A. facility. We provide our components to a contract manufacturer in Asia who assembles SOLOS.

Our NVIS, Inc. ("NVIS") subsidiary is a designer and manufacturer of military and industrial head-mounted virtual reality products and simulated military equipment located in Reston, Virginia U.S.A. Depending on the size of the order NVIS's products are either manufactured in its Reston, Virginia facility or by a contract manufacturer in the

U.S.A. NVIS products allow customers to visualize and interact with simulated 3D environments and equipment for training purposes. Our customers develop high-fidelity training and simulation applications that require high-performance visuals, intuitive controls, and unsurpassed customer support. Some of NVIS's products include our LCOS displays.

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Sales to significant non-affiliated customers for fiscal years 2018, 2017 and 2016, as a percentage of total revenues, is as follows:

	Sales as a Percent of Total Revenue Fiscal Year		
Customer	2018	2017	2016
Military Customers in Total	36%	48%	24%
General Dynamics	11%	*	*
DRS Technologies	*	10%	*
Collins Aerospace	20%	10%	12%
Shenzhen Oriscape	*	*	20%
U.S. Army	*	12%	*
Funded Research and Development Contracts	20%	11%	7%

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

Our fiscal year ends on the last Saturday in December. The fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016 are referred to herein as fiscal years 2018, 2017 and 2016, respectively. Our principal executive offices are located at 125 North Drive, Westborough, Massachusetts. Our telephone number is (508) 870-5959.

Industry Overview

Wearable Products

The introduction and wide acceptance of the smartphone has generated advances in many technologies including smaller and cheaper electronic components, voice search engines and wireless 4G networks. Smartphone adoption has also been the catalyst for the development of software for a wide-range of applications. Leveraging off of these advances and the growth of cloud computing, a new category of “Wearable” products is emerging that provides access to data. This emerging category of wearable systems can be used for hundreds of different applications by enterprise workers, public safety officials and consumers, bringing ever-increasing productivity, fun and convenience. Through the use of Wearable products both workers and consumers can have access to their digital files, the Internet, phone, e-mail, etc., enabling an “always connected” work-style and lifestyle. We believe that advances in wearables will continue to make the “always connected” life increasingly convenient and more productive by providing easier access to and control of the information accessible through our electronic devices.

Wearable products include body-worn devices such as sensors, scanners and terminals which are sold to enterprise markets to improve worker productivity, and to the consumer market to monitor health and fitness metrics such as heart rate, speed and temperature. The user interface for these devices is typically either a key pad or a touch-screen. Some Wearable products include voice recognition software as an additional feature to allow the user to navigate the device’s interface “hands-free” instead of using a traditional mouse, touch-screen or keypad. We believe wireless smartphone makers are looking to create products that work as a complement to the smartphone or will eventually replace the smartphone with more convenient configurations. Wireless network companies are encouraging the development of more products that utilize their network capacity and other companies are developing products which provide continuous access to social media outlets. In order for the markets for these new products to develop and grow, devices must further advance and application software that exploits the devices’ new features and functions must be developed. Device improvements include smaller, higher resolution displays, lower power processors, longer-life batteries, compact optics and software including voice recognition and noise cancellation.

Our Solution

Kopin Wearable Technology

Kopin Wearable technology includes both component technologies to enable our customers to create headset systems and our own proprietary headset systems. The components we offer for sale primarily consist of our displays, backlights, ASICs, optical lenses and our audio IC, Whisper Chip. Our headset systems include SOLOS smart glasses

for the health and fitness market, Golden-i™ Infinity for the enterprise market and a visor for training and simulation.

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Display Products

Small form factor displays are used in military, consumer, and industrial products such as thermal weapon sights, safety equipment, virtual and augmented reality gaming, training and simulation products and metrology tools. In order for these markets to develop and grow, advances and investment in application software, optics and wireless communications systems with greater bandwidth and increased functionality will be necessary. We believe small form factor displays will be a critical component in the development of these markets as these systems must provide high resolution images without compromising the portability of the product.

There are several microdisplay technologies commercially available including transmissive, reflective and emissive. We believe we are the only company that offers all of these technologies. Our principal display products are miniature high density color or monochrome AMLCDs that range from approximately 320 x 240 resolution to 2048 x 2048 resolution and are sold in either a transmissive or reflective format. In 2018 we began shipping samples of our emissive OLED display with a resolution of 2048 x 2048 (“2K x 2K”). We sell our displays individually or in combination with our other components assembled in a unit. For example, we offer a display as a product, a module product unit that includes a single display, backlight and optics in a plastic housing, a binocular display module product that includes two displays, backlights and optics in a plastic housing, and a Higher-Level Assembly ("HLA") that contains a display, light emitting diode based illumination, optics, and electronics in a sealed housing, primarily for military applications.

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

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

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

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

Our reflective LCOS display products are miniature high density, dual mode color sequential/monochrome reflective microdisplays with resolutions which range from approximately 1280 x 720 pixels ("720P") resolution to 2K x 2K resolution. These displays are manufactured at our facility in Scotland, U.K. Our reflective displays are based on a proprietary, high-speed, ferroelectric liquid crystal on silicon ("FLCOS") platform. Our digital software and logic-based drive electronics combined with the very fast switching binary liquid crystal enables our microdisplay to process images purely digitally and create red, green and blue gray scale in the time domain. This architecture has major advantages in visual performance over other liquid crystal, organic light-emitting diode and microelectromechanical systems-based technologies: precisely controlled full color or monochrome gray scale is achieved on a matrix of undivided high fill factor pixels, motion artifacts are reduced to an insignificant level and

there are no sub-pixels, no moving mirrors and no analog conversions to detract from the quality of the image.
The FLCOS device is comprised of two substrates. The first is a pixelated silicon-based CMOS substrate which is manufactured by our foundry partner using conventional silicon integrated circuit lithography processes. The silicon substrate forms the display's backplane, serving as both the active matrix to drive individual pixels and as a reflective

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mirror. The second substrate is a front glass plate. Between the backplane and the front glass substrate is a ferroelectric liquid crystal material which, when switched, enables the incoming illumination to be modulated.

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

Our proprietary technology is in the design of the integrated circuits or “back plane”. We have engaged foundry services for the fabrication of the Lightning OLED displays. We believe this outsourcing model allows us to leverage existing infrastructure to obtain lower cost manufacturing and avail ourselves of manufacturing technology improvements as they occur.

Our 2k x 2k Lightning display addresses the most challenging technical hurdles with virtual reality systems, including the visible “screen door” effect, which is due to insufficient display resolution, bulky size, and nausea or dizziness from motion-to-photon latency, as well as heat-build-up caused by high power consumption. We combine the one-inch diagonal Lightning OLED microdisplay (which is less than 1/10 the size of direct view displays for the same resolution) with our patented Pancake™ optics (< 20 mm thick) to enable system manufacturers to create much smaller and thinner mobile VR systems. The Lightning OLED microdisplay has almost zero latency (about 10 microseconds) and an industry leading 120-Hz frame rate. At the same time, Lightning’s distinctive design enables low power consumption, even at 120-Hz.

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

Optical Lenses and Backlights

We offer a variety of optical lenses some of which we have developed internally and others we license the rights to sell the lenses. We also offer a variety of backlights, some of which we have developed internally and some of which are “off-the-shelf” components. The lenses come in a variety of sizes with the smallest being our Pupil, followed by our Pearl, Prism, Pantile, and Pancake lenses. The different sizes of lenses give us and our customers design flexibility when creating headset systems. There is a trade-off between the lens size and the size of the perceived image to the viewer. For example, a Pearl lens will provide the viewer with an image approximately equivalent to what the viewer would see looking at a smartphone, whereas a Prism lens will provide the viewer with an image approximately equivalent to what the viewer would see looking at a tablet. A Pearl lens, however, is smaller than a Prism and would enable a more fashionable design. Therefore, a customer designing a consumer-oriented product may choose a Pearl lens but a customer designing an enterprise-oriented product might choose a Prism Lens. We use third parties to manufacture these lenses.

Whisper Chip

Today, many devices are equipped to use voice as an input or control method for the device. Most users find, however, that today’s speech recognition on their devices is not satisfactory because it does not work reliably in the variety of noisy environments we find ourselves in during the course of our days. The root cause of the low reliability is that the noise canceling software used in today’s devices is not always effective. The Whisper Chip addresses this problem. It is designed to enhance the performance of existing audio systems and speech recognition engines by allowing the speaker’s voice to be clearly “heard” by the listener, whether the “listener” is a person or a machine. The Whisper Chip incorporates our Voice Extraction™ Filter ("VEF"). VEF is a patented approach to singulating the voice signal without distorting it. The Whisper Chip is an all-digital solution that runs at 16MHz, consumes less than 12mW of power and replaces the CODEC so no ADC or DAC is needed. The Whisper Chip is 4 x 4 mm in size and accepts up to four (4) digital microphone inputs. We use third parties to manufacture the Whisper Chip.

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Headset Systems

Our headset systems include:

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

Except for Golden-i Infinity, our headsets receive, or transmit data, from or to the Internet by interfacing with a smartphone or similar device via WiFi or Bluetooth. They can also receive information from devices in close proximity using ANT+. Golden-i Infinity connects to a smartphone or similar device via wire to leverage the processing capabilities of the smartphone and make the device as small and light as possible. The display module or optical pod allows users to view the information such as Internet data, emails, text messages, maps or biometric data (heart rate), and situational data (speed, distance traveled, watts produced) at a “normal” size because of our specialized optics. Our industrial headsets provide the capability of viewing technical diagrams, by enabling the user to zoom in to see finer details or zoom out to see a larger perspective. Our headsets utilize operating system software we developed or outsource.

For commercial users, we believe the following features can drive adoption through improved productivity:

- User can access cloud based systems to obtain up-to-date work instructions, checklists, diagrams or videos in order to perform the required tasks;
- Our systems enable the user to stream video to a “subject matter expert” who can see what the user is doing and can make recommendations; and
- By virtue of using a head mounted system that is primarily voice controlled the user has the ability to use both hands.

Strategy

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

- Broad Portfolio of Intellectual Property. We believe that our extensive portfolio of patents, trade secrets and non-patented know-how provides us with a competitive advantage in our markets and we have been accumulating, either by internal efforts or through acquisition, a significant patent and know-how portfolio. We own, exclusively license or have the exclusive right to sublicense approximately 300 patents and patent applications issued and/or pending worldwide. An important piece of our strategy is to continue to accumulate valuable patented and non-patented technical know-how relating to our microdisplays as well as other critical technologies for advanced wearable services.
- Maintain Our Technological Leadership. We are a recognized leader in the design, development and manufacture of high resolution microdisplays and modules which incorporate our microdisplays with optics and ASICs and our audio IC, Whisper Chip We believe our ability to develop components, software and noise canceling technology and innovative headset system designs enhances our opportunity to grow within our targeted markets. By continuing to invest in research and development, we are able to add to our expertise as a system and components supplier for our original equipment manufacturer (our “OEM”) customers, and we intend to continue to focus our development efforts

on proprietary wearable computing systems.

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- Understand Our Customer Needs. We believe our system know-how, be it a consumer, industrial or military system is a compelling reason customers choose us as their supplier. Unlike many of our competitors we offer a range of display technologies, optics, backlights, ASICs, noise cancellation as either an individual component or in a system. Our system understanding enables us to offer our customers valuable engineering services to solve their issues and reduce time to market for their products.