

KOPIN CORP
Form DEF 14A
March 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section §240.14a-12

Kopin Corporation

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

- (1) Title of each class of securities to which transaction applies:

- (2) Aggregate number of securities to which transaction applies:

- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

- (4) Proposed maximum aggregate value of transaction:

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- (1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

KOPIN CORPORATION

125 North Drive, Westborough, Massachusetts 01581

March 29, 2018

To Our Stockholders:

You are cordially invited to attend the 2018 Annual Meeting of Stockholders of KOPIN CORPORATION, to be held at 9:00 a.m. on Wednesday, May 9, 2018, at the offices of Morgan, Lewis & Bockius LLP, One Federal Street, Boston, Massachusetts 02110 (the Meeting).

The Notice of Meeting and the Proxy Statement that follow describe the business to be considered and acted upon by the stockholders at the Meeting. Our Annual Report on Form 10-K for the fiscal year ended December 30, 2017 is also enclosed for your information.

Our Board of Directors encourages your participation in Kopin Corporation's electoral process and, to that end, solicits your proxy with respect to the matters described in the Notice of Meeting and the Proxy Statement. You may submit your proxy by completing, dating and signing the enclosed Proxy Card and returning it promptly in the enclosed envelope. You may also vote by telephone or by the Internet, as described in the Proxy Statement. You are urged to vote by mail, telephone or Internet even if you plan to attend the Meeting.

Sincerely,

JOHN C.C. FAN

Chairman

KOPIN CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On Wednesday, May 9, 2018

Notice is hereby given that the 2018 Annual Meeting (the Meeting) of Stockholders of Kopin Corporation (the Company) will be held at the offices of Morgan, Lewis & Bockius LLP, One Federal Street, Boston, Massachusetts 02110, on Wednesday, May 9, 2018, at 9:00 a.m., local time, to consider and act upon the following matters:

1. A proposal to elect seven (7) directors named in the accompanying proxy statement to serve on the Board of Directors of the Company until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified.
2. A proposal to ratify an amendment to the Company s 2010 Equity Incentive Plan to increase the number of shares authorized for issuance under the 2010 Equity Incentive Plan from 13,100,000 to 14,100,000.
3. A proposal to approve the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for the current fiscal year.
4. An advisory vote to approve the compensation of the Company s named executive officers.

Stockholders of record at the close of business on Wednesday, March 14, 2018, the record date for the Meeting, are entitled to notice of and to vote at the Meeting and any adjournments thereof. The enclosed proxy statement is being mailed to those stockholders on or about March 29, 2018. All stockholders are cordially invited to attend the Meeting.

By Order of the Board of Directors

JOHN C.C. FAN

Chairman

Westborough, Massachusetts

March 29, 2018

WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE MEETING, PLEASE COMPLETE, DATE, SIGN AND MAIL THE ENCLOSED PROXY CARD, WHICH IS SOLICITED BY THE BOARD OF DIRECTORS OF THE COMPANY, AND PROMPTLY RETURN IT IN THE PREAMDRESSED ENVELOPE PROVIDED FOR THAT PURPOSE. THE ENCLOSED ENVELOPE REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. ALTERNATIVELY, YOU MAY VOTE BY TELEPHONE OR THE INTERNET AS DESCRIBED IN THE PROXY STATEMENT. IF YOU ATTEND THE MEETING, YOU MAY WITHDRAW ANY PROXY PREVIOUSLY GIVEN BY YOU AND YOU MAY VOTE YOUR SHARES IN PERSON AT THE MEETING.

KOPIN CORPORATION

125 North Drive

Westborough, Massachusetts 01581

PROXY STATEMENT

Important Notice Regarding Internet Availability of Proxy Materials for the Stockholders Meeting to be Held on Wednesday, May 9, 2018. The Proxy Statement and our 2017 Annual Report to Stockholders are also available on our website at www.kopin.com/proxy

This proxy statement and proxy are being furnished in connection with the solicitation by the Board of Directors (the Board) of Kopin Corporation (the Company) for use at the 2018 Annual Meeting of Stockholders (the Meeting) to be held on Wednesday, May 9, 2018, and at any adjournments, continuations or postponements thereof. This proxy statement, the accompanying proxy card and our Annual Report for the fiscal year ended December 30, 2017, were first mailed to stockholders on or about March 29, 2018. The Meeting will be held at the offices of Morgan, Lewis & Bockius LLP, One Federal Street, Boston, Massachusetts 02110 on Wednesday, May 9, 2018, at 9:00 a.m.

All solicitation expenses, including costs of preparing, assembling and mailing proxy materials, will be borne by the Company. It is expected that solicitations will be made primarily by mail, but our directors, officers and other employees also may solicit proxies by telephone and in person, without additional compensation. Arrangements will be made with brokerage houses and other custodians, nominees, and fiduciaries for proxy materials to be sent to their principals, and we will reimburse such persons for their reasonable expenses in so doing.

The close of business on Wednesday, March 14, 2018, has been established as the record date for determining the stockholders entitled to notice of and to vote at the Meeting and at any adjournments thereof. As of the record date, there were 76,524,532 shares of our common stock issued and outstanding and entitled to vote. Holders of shares of our common stock are entitled to one vote for each share owned as of the record date on all matters to come before the Meeting and any adjournments thereof. The presence in person or by proxy of holders of a majority of the issued and outstanding shares of our common stock entitled to vote at the Meeting constitutes a quorum for the transaction of business at the Meeting.

Stockholders may vote by completing the enclosed proxy card and mailing it in the envelope provided, by using the toll-free telephone number provided on the proxy card, over the Internet, or in person. The Internet and telephone voting facilities for stockholders of record will close at 11:59 p.m. Eastern Time on Tuesday, May 8, 2018. Any proxy submitted prior to the Meeting may be revoked at any time before it is voted by written notice of revocation received by the Secretary of the Company prior to the Meeting, by delivering a later dated proxy in accordance with the instructions on the enclosed proxy, by voting in person at the Meeting or by revoking a written proxy by request in person at the Meeting. If the proxy submitted is not so revoked, the shares represented by such proxy will be voted in accordance with the instructions contained therein. If no choice is specified for one or more proposals in a proxy submitted by or on behalf of a stockholder, the shares represented by such proxy will be voted in favor of such proposals and in the discretion of the named proxies with respect to any other proposals which may properly come before the Meeting.

For Proposal 1, directors are elected by a plurality of shares present in person or represented by proxy at the Meeting and entitled to vote, which means that the seven individuals receiving the highest number of FOR votes will be elected directors. Proposals 2, 3 and 4 will be approved upon the affirmative vote of a majority of shares present in person or represented by proxy at the Meeting and entitled to vote on each such proposal.

If, in a proxy submitted on behalf of a stockholder by a person acting solely in a representative capacity, the proxy is marked clearly to indicate that the shares represented thereby are not being voted with respect to one or more proposals, then such proxies will be counted as present for purposes of establishing a quorum at the

Meeting but will not be considered entitled to vote on such proposals and such non-votes will have no effect on the results of the voting on such proposals. Proxies marked as abstain as to one or more proposals will be counted as present for purposes of establishing a quorum at the Meeting and for the purpose of calculating the vote on such proposals. Such abstentions will have the effect of a vote against such proposals other than Proposal 1 (for which they will have no effect on the voting results).

The chairman of the Meeting or the holders of a majority of the shares present in person or represented by proxy at the Meeting and entitled to vote have the power to adjourn the Meeting from time to time without notice other than announcement at the Meeting of the time and place of the adjourned meeting.

As of the date of this proxy statement, we do not know of any matters which will be brought before the Meeting other than those matters specifically set forth in the Notice of Annual Meeting of Stockholders. However, if any other matter properly comes before the Meeting, it is intended that the persons named in the enclosed proxy card, or their substitutes acting thereunder, will vote on any such matter in accordance with their best judgment.

Corporate Governance Matters

Our Board has an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. The following table lists each of our directors for fiscal year 2017 and provides membership information for each of the committees:

Name	Audit	Compensation	Nominating and Corporate Governance
John C.C. Fan			
James K. Brewington			X
David E. Brook			
Andrew H. Chapman	X	X	
Morton Collins	X	X	
Chi Chia Hsieh			X
Michael J. Landine	X		X
<i>Corporate Governance Guidelines</i>			

Our Board has adopted charters for each of its Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. Our Board also has adopted corporate governance guidelines, a code of business conduct and ethics for employees, executive officers and directors and a whistleblower policy regarding the treatment of complaints on accounting, internal accounting controls and auditing matters. All of these documents are available on our website at www.kopin.com under the heading Investors: Corporate Governance. A copy of any of these documents may be obtained, without charge, upon written request to Kopin Corporation, c/o Investor Relations, 125 North Drive, Westborough, MA 01581.

Corporate Governance Practices and Board Independence

Each year, our Board reviews the relationships that each director has with us and with other parties. With the exception of Dr. Fan, our Chief Executive Officer, only those directors who do not have any of the categorical relationships that preclude them from being independent within the meaning of applicable Nasdaq Stock Market, Inc. Marketplace Rules (the Nasdaq Rules), and who the Board affirmatively determines have no relationships that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, are considered to be independent directors. Our Board has reviewed a number of factors to evaluate the independence of each of its members. These factors include the members' current and historic relationships with us and our competitors, suppliers and customers; their relationships with management and other directors; the relationships their current and former employers have with us; and the relationships

between us and other companies of which a member of our Board is a director or executive officer. After evaluating these factors, our Board has determined that a majority of the members of the Board, namely James Brewington, David Brook, Andrew Chapman, Morton Collins, Chi Chia Hsieh and Michael Landine, do not have any relationships that would interfere with the exercise of independent judgment in carrying out their responsibilities as a director and are independent directors of Kopin Corporation within the meaning of the applicable Nasdaq Rules.

In making its independence determinations, our Board considered transactions occurring since the beginning of 2009 between us and entities associated with the independent directors or members of their immediate family. All identified transactions that appear to relate to Kopin Corporation and a person or entity with a known connection to a director are presented to the Board for consideration. In making its subjective determination that each non-employee director is independent, our Board considered the transactions in the context of the Nasdaq Rules, the standards established by the Securities and Exchange Commission (SEC) for members of audit committees, and the SEC and Internal Revenue Service standards for compensation committee members. Our Board's independence determinations included reviewing the following transactions and relationships:

Dr. Hsieh is a director of a company, KoBrite Corp, (KoBrite), in which Kopin owns a minority interest. Dr. Hsieh is also a director of Bright LED, which is the majority owner of KoBrite. Mr. Brook, one of our directors, is a partner of the patent law firm of Hamilton, Brook, Smith & Reynolds P.C., which is our patent counsel. During fiscal year 2017, we paid Hamilton, Brook, Smith & Reynolds P.C. fees for legal services of approximately \$751,837.

Our Board noted that the fees paid to Hamilton, Brook, Smith & Reynolds P.C. were less than 5% of the firm's revenue for the fiscal year 2017. Mr. Brook does not sit on any of the Company's committees. Our Board determined that, because of the nature of the director's relationship with the entity and/or the amount involved, the relationship did not impair the director's independence.

Nomination and Election of Directors

When seeking candidates for director, the Nominating and Corporate Governance Committee (the Nominating Committee) may solicit suggestions from incumbent directors, management or others. After conducting an initial evaluation of a candidate, the Nominating Committee will interview that candidate if it believes the candidate might be suitable to serve as a director. The Nominating Committee may also ask the candidate to meet with our management. If the Nominating Committee believes a candidate would be a valuable addition to the Board and there is either a vacancy on the Board or the Nominating Committee believes it is in the best interests of Kopin Corporation and its stockholders to increase the number of board members, it will recommend that candidate's election to the full Board.

Before nominating a sitting director for re-election at an annual stockholder meeting, the Nominating Committee will consider the director's performance on the Board and whether the director's re-election would be consistent with our corporate governance guidelines and our continued compliance with applicable laws, rules and regulations.

Our Board believes that it should be comprised of directors with diverse and complementary backgrounds, and that directors should have expertise that, at a minimum, may be useful to us and may contribute to the success of our business. Directors also should possess the highest personal and professional ethics and should be willing and able to devote an amount of time sufficient to effectively carry out their duties and contribute to the success of our business. When considering candidates for director, the Nominating Committee takes into account a number of factors, which may include the following:

Independence from management;

Age, gender and ethnic background;

Relevant business experience;

Judgment, skill and integrity;

Existing commitments to other businesses;

Potential conflicts of interest;

Corporate governance background;

Financial and accounting background;

Executive compensation background; and

Size and composition of the existing Board.

Stockholder Proposals

The Nominating Committee will consider candidates for director suggested by stockholders by considering the foregoing criteria and the additional information referred to below. Stockholders wishing to suggest a candidate for director should write to Kopin Corporation, c/o Investor Relations, 125 North Drive, Westborough, MA 01581, and include the following:

The name and address of the stockholder and a statement that he, she or it is one of our stockholders and is proposing a candidate for consideration by the Nominating Committee;

The class and number of shares of our capital stock owned by the stockholder as of the record date for the annual stockholder meeting (if such date has been announced) and as of the date of the notice, and length of time such stockholder has held such shares;

The name, age and address of the candidate;

A description of the candidate's business and educational experience;

The class and number of shares of our capital stock, if any, owned by the candidate, and length of time such candidate has held such shares;

Information regarding each of the foregoing criteria the Board generally considers, other than the factors regarding Board size and composition, sufficient to enable the committee to evaluate the candidate;

A description of any relationship between the candidate and any of our customers, suppliers or competitors or any actual or potential conflict of interest;

A description of any relationship or understanding between the stockholder and the candidate; and

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A written statement by the candidate that the candidate is willing to be considered and willing to serve as a director if nominated and elected.

Under our by-laws, nominations for directors may be made only by or at the direction of the Board, or by a stockholder of record at the time of giving notice who is entitled to vote and delivers to Kopin Corporation written notice along with the additional information and materials required by the by-laws not less than 90 days and not more than 120 days prior to the first anniversary of the immediately preceding year's annual meeting. For our annual meeting in the year 2019, we must receive this notice no earlier than January 9, 2019, and no later than February 8, 2019 to be eligible for consideration at the annual meeting in 2019. You can obtain, without charge, a copy of the by-laws by writing to Kopin Corporation, c/o Investor Relations, 125 North Drive, Westborough, MA 01581.

Under our by-laws, stockholders may present proposals other than director nominations that may be proper subjects for inclusion in the proxy statement and for consideration at an annual meeting. For business to be properly brought before a stockholder meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary. To be timely, a stockholder's notice shall be delivered to or mailed and

received at the principal executive offices of the Company not less than 30 days nor more than 75 days prior to the first anniversary of the preceding year's annual meeting. For our annual meeting in the year 2019, pursuant to the requirements in our by-laws, we must receive this notice no earlier than February 23, 2019 and no later than April 9, 2019, to be eligible for consideration at the annual meeting in 2019 but that are not included in the proxy statement.

Under Rule 14a-8 of the Securities and Exchange Act of 1934, as amended (the Exchange Act) stockholders must deliver proposals to Kopin Corporation not later than December 2, 2018 if the proposal is submitted for inclusion in our proxy materials for the annual meeting in 2019.

Stockholder Communications with the Board

The Board has established a process for stockholders to send communications to our Board or any individual director. Stockholders may send written communications to the Board or any director to Kopin Corporation, Board of Directors, c/o Chief Financial Officer, 125 North Drive, Westborough, MA 01581.

Related Transactions

The Audit Committee reviews and approves certain transactions or relationships involving Kopin and its directors, executive officers and their affiliates. Kopin has adopted policies and procedures that apply to any transaction or series of transactions in which Kopin, or a subsidiary, is a participant, the amount involved exceeds \$120,000, and a related person has a direct or indirect material interest. In reviewing a transaction or relationship, the Audit Committee will take into account, among other factors it deems appropriate, the nature and terms of the transaction, the dollar value of the transaction, the business reasons for the transaction, whether it is on terms no more favorable than to an unaffiliated third party under similar circumstances, as well as the extent of the related party's interest in the transaction. Our Code of Business Conduct and Ethics for Employees, Executive Officers and Directors prohibits any transaction or relationship that would create a conflict of interest, unless approved by the Board. Conflicts of interests are to be reported to the applicable employees' immediate supervisor or our Chief Financial Officer.

Mr. Brook, one of our directors, is a principal and shareholder of the patent law firm of Hamilton, Brook, Smith & Reynolds P.C., which is our patent counsel. We have engaged Hamilton, Brook, Smith & Reynolds P.C. from time to time since 1984 and intend to continue to do so in the future. During fiscal year 2017, we paid Hamilton, Brook, Smith & Reynolds P.C. fees for legal services of approximately \$751,837. Mr. Brook is not directly compensated by Hamilton, Brook Smith & Reynolds P.C. based on that firm's work performed for the Company and does not routinely work on Company matters. Furthermore, Mr. Brook's interest is approximately 8% of the law firm's shareholder allocation and the fees paid by the Company to Hamilton, Brook, Smith & Reynolds P.C. in 2017 represented less than 5% of the law firm's revenue for fiscal year 2017.

We do not currently provide personal loans to our executive officers or directors. Other than Proposal 1, none of our directors, executive officers or their associates have a substantial interest in any of the matters to be acted upon at the Meeting.

PROPOSAL 1
ELECTION OF DIRECTORS

Our by-laws provide that the Board shall consist of not less than three nor more than thirteen directors. The Board has fixed the number of directors at seven. Unless authority is withheld, it is the intention of the persons voting under the enclosed proxy to vote such proxy in favor of the election of each of the nominees to be a director until the 2019 Annual Meeting of Stockholders and until their respective successors are elected and qualified. If any nominee is unavailable, such votes will be cast by the proxies either for a substitute nominee selected by the proxies or to fix the number of directors at a lesser number. Our Board currently has no reason to expect that any of the nominees will be unavailable.

Required Vote

The election of directors requires a plurality of the votes properly cast by or on behalf of the holders of our common stock at the Meeting, which means that the seven individuals receiving the highest number of FOR votes will be elected directors. Any non-votes and abstentions from voting received will have no effect on the results of this Proposal 1.

The Board of Directors has nominated and recommends that you vote FOR the election of each of the nominees listed below to serve as our Directors until the 2019 Annual Meeting of Stockholders and until their successors are duly elected and qualified.

Set forth below are the name and age for each director nominee, his or her principal occupation and business experience during the past five years and the names of other publicly-traded companies of which he served as a director.

Name	Age	Served as Director Since	Position and Offices with the Company
John C.C. Fan	74	1984	President, Chief Executive Officer, Director and Chairman of the Board
James K. Brewington	74	2006	Director
David E. Brook	77	1984	Secretary and Director
Andrew H. Chapman	63	1985	Director
Morton Collins	82	1985	Director
Chi Chia Hsieh	73	1995	Director
Michael J. Landine	64	2003	Director

Beyond their general business acumen and insights, the Board of Directors believes the proposed directors bring the following skill sets and benefits to the Company:

John C.C. Fan Dr. Fan is the Founder of Kopin Corporation and has served as our Chief Executive Officer and Chairman of the Board since our organization in April 1984. Dr. Fan received a Ph.D. in Applied Physics from Harvard University.

James K. Brewington Mr. Brewington served as president of Lucent Technologies Mobility Solutions Group, where he was responsible for all wireless infrastructure for the mobility segment, including global wireless development and product architecture. Our Golden-i technology is designed for integration in or with wireless devices such as cell phones. Mr. Brewington provides general business counsel and specifically on the direction of wireless technologies used by us in developing our strategies.

David E. Brook We make significant investments in research and developing new technologies. Mr. Brook is a founder and principal of Hamilton, Brook, Smith & Reynolds P.C., a law firm specializing in intellectual property (IP) rights. Mr. Brook counsels the Company on developing IP strategies to protect our investments.

Andrew Chapman We are still in a growth stage and Mr. Chapman has managed and served on the boards of numerous start-up technology companies and provides us counsel on dealing with both day-to-day issues and developing strategies during our formative years.

Morton Collins Mr. Collins has served on the board of directors of several venture capital partnerships, private and public companies and has an extensive technology background. Mr. Collins provides us with counsel based on his experience in finance and company creation.

Chi Chia Hsieh We have significant sales and investments in Taiwan, Korea, Japan and China, and a critical step in the production of our display products occurs in Taiwan. Dr. Hsieh provides us with counsel on Asian business practices and relationships with Asian business leaders.

Michael Landine Mr. Landine has served as Chief Financial Officer and Senior Vice President of Corporate Development at Alkermes, Inc., a publicly-held company, and has served on the board of directors of other publicly-held corporations. Mr. Landine provides counsel to us as Chairman of the Audit Committee and in evaluating strategic investment opportunities.

The Board of Directors considers diversity in terms of education, business experience and nationality when considering candidates for our Board of Director. There are no family relationships between any of our directors, officers or nominees.

Background of Nominees for Director and Certain Officers

Nominees

John C.C. Fan, President, Chief Executive Officer, Chairman of the Board. Dr. Fan has served as our Chief Executive Officer and Chairman of the Board since our organization in April 1984. He has also served as our President since July 1990. Prior to July 1985, Dr. Fan was Associate Leader of the Electronic Materials Group at MIT Lincoln Laboratory. Dr. Fan is the author of numerous patents and scientific publications. Dr. Fan received a Ph.D. in Applied Physics from Harvard University. During the past five years, Dr. Fan has not served on the board of directors of any other public companies or registered management investment companies.

James K. Brewington, Director. Mr. Brewington has served as one of our directors since 2006. Mr. Brewington retired as President of Developing Markets at Lucent Technologies in 2007. Prior to heading Lucent's Developing Markets group, Mr. Brewington served as president of that company's Mobility Solutions Group, where he was responsible for all wireless infrastructure for the mobility segment, including global wireless development and product architecture, project management, and business and product management. He began his career at AT&T in 1968, and over the ensuing years he has held various executive management positions in the telecommunications industry, including overseeing Bell Telephone Wireless Laboratories. Mr. Brewington is currently chairman of the Board of directors of New Edge Signal Solutions, a private company. During the past five years, Mr. Brewington has not served on the board of directors of any other public companies or registered management investment companies.

David E. Brook, Secretary and Director. Mr. Brook has served as one of our directors since 1984. Mr. Brook is a founder and principal of the intellectual property law firm Hamilton, Brook, Smith & Reynolds P.C. in Boston and Concord, Massachusetts. During the past five years, Mr. Brook has not served on the board of directors of any other public companies or registered management investment companies.

Andrew H. Chapman, Director. Mr. Chapman has served as one of our directors since 1985. From 2003 to the present, Mr. Chapman has been a private investor. Mr. Chapman has founded, managed, been a director of and/or invested in numerous technology start-up companies over the past 20 years. Mr. Chapman received a B.A. from Yale College and an MBA from The Wharton School of the University of Pennsylvania. During the past five years, Mr. Chapman has not served on the board of directors of any other public companies or registered management investment companies.

Morton Collins, Director. Mr. Collins has served as one of our directors since 1985 and was elected our Lead Independent Director in 2014. Mr. Collins received his PhD in Chemical Engineering from Princeton University and his PhD in Science from University of Delaware. From October 1968 to June 1974, Mr. Collins was the Founder and Chief Executive Officer of Data Science Ventures, Inc. (DSV I). He was a Founder of DSV Associates (DSV II); DSV Partners III (DSV III); DSV Partners IV (DSV IV) and has been the Managing Partner of each since their formation in 1974, 1981 and 1985 respectively. These organizations provide venture capital and management assistance to early-stage high-technology companies. In July of 1997, Mr. Collins became a Special Limited Partner of Cardinal Partners, the successor to the DSV series of partnerships. From 2003 to 2016, Mr. Collins was a General Partner of Battelle Ventures. In January of 2017, Mr. Collins founded M Collins Ventures, a venture capital fund of which he is the Managing Partner. Mr. Collins is currently a member of the board of directors of Inovio Pharmaceuticals, Inc., a public company. During the past five years, Mr. Collins has not served on the board of directors of any other public companies or registered management investment companies other than Inovio.

Chi-Chia Hsieh, Director. Dr. Hsieh has served as one of our directors since December 1995. Dr. Hsieh is currently the Vice Chairman and was previously the President of Microelectronics Technology Inc., a Taiwan corporation publicly traded on the Taiwan Stock Exchange. Dr. Hsieh is Chairman of the board of directors of IQE Taiwan, a Taiwan corporation in which we formerly were a majority stockholder until January 2013. Dr. Hsieh is also a member of the board of directors of BriteLED, a Taiwan Corporation publicly traded on the Taiwan Stock Exchange. Dr. Hsieh is currently a member of the board of directors of Microelectronics Technology Inc., Advanced Wireless Systems, Bright LED Electronics Corp., and Taiwan Cement Corporation, all public companies. Dr. Hsieh is also the Independent Director of Innolux Corporation, and Independent Director of AcBel Polytech Inc., both are public companies in Taiwan. During the past five years, Dr. Hsieh has not served on the board of directors of any other public companies or registered management investment companies.

Michael J. Landine, Director. Mr. Landine has served as one of our directors since 2003. Mr. Landine is Senior Vice President of Corporate Development of Alkermes, Inc., where he has worked for over 20 years. Mr. Landine served for 10 years as the Chief Financial Officer and Treasurer of Alkermes. Mr. Landine worked for the international accounting firm Touche Ross & Co. During the past five years, Mr. Landine has not served on the board of directors of any other public companies or registered management investment companies other than GTC Biotherapeutics Inc., a publicly-traded biotechnology company, from 2005 to 2010.

Officers

John C.C. Fan, President, Chief Executive Officer, Chairman of the board. Dr. Fan, age 74, has served as our Chief Executive Officer and Chairman of the Board since our organization in April 1984. He has also served as our President since July 1990. Prior to July 1985, Dr. Fan was Associate Leader of the Electronic Materials Group at MIT Lincoln Laboratory. Dr. Fan is the author of numerous patents and scientific publications. Dr. Fan received a Ph.D. in Applied Physics from Harvard University.

Richard A. Sneider, Treasurer and Chief Financial Officer. Mr. Sneider, age 57, has served as our Treasurer and Chief Financial Officer since September 1998. Mr. Sneider is a former Certified Public Accountant and was formerly a partner of the international public accounting firm, Deloitte & Touche LLP, where he worked for 16 years.

Hong Choi, Chief Technology Officer and Vice President. Dr. Choi, age 66, joined us as Chief Technology Officer in July 2000. Previously, Dr. Choi served as Senior Staff Member at MIT Lincoln Laboratory, where he worked for 17 years. Dr. Choi received a Ph.D. in Electrical Engineering from the University of California, Berkeley.

Boryeu Tsaur, Executive Vice President Display Operations. Dr. Tsaur, age 62, joined us as Executive Vice President Display Operations in July 1997. From 1993 to 1997, Dr. Tsaur served as Group Leader, Electronic Material Group, at MIT Lincoln Laboratory. Dr. Tsaur received a Ph.D. in Electrical Engineering from the California Institute of Technology.

Board Structure and Risk

Our Board leadership structure is commonly utilized by other public companies in the United States, and we believe that it is effective for us. We believe this leadership structure is appropriate for us given the size and scope of our business, the experience and active involvement of our independent directors, and our corporate governance practices, which include regular communication with and interaction between and among the Chief Executive Officer and the Chief Financial Officer and the independent directors. Pursuant to our by-laws, our Board selects the Chairman and the Chief Executive Officer that it determines to be in the best interest of our stockholders. With the exception of Dr. Fan, each of the directors is independent under the Nasdaq Rules and the applicable SEC rules and regulations. Morton Collins is our Lead Independent Director. We believe that having a combined Chairman and Chief Executive Officer and independent chairs for each of our Board committees provides the best form of leadership for us. We have a single leader for our Company with oversight of our operations by experienced independent directors who have appointed three independent committee chairs.

We believe that our directors provide effective oversight of risk management functions. Annually, we perform a risk review where the management team evaluates the risks facing us in the upcoming year and over a longer term horizon, typically three years. From this risk assessment, we develop plans to deal with the risks identified. This risk assessment is provided to the Board of Directors and their input is reflected in the annual risk assessment. In addition, members of our management periodically present to the Board the strategies, issues and plans for the product lines they manage. The Compensation Committee also reviews our incentive plans to determine whether they result in management behavior that may result in additional risk beyond the plans' intended purpose. While the Board oversees our risk management, our management is responsible for day-to-day risk management processes. Additionally, the Board requires that management raise exceptional issues to the Board. We believe this division of responsibilities is the most effective approach for addressing the risks facing us and that the Board leadership structure supports this approach.

Board and Committee Meetings

During the fiscal year 2017, our Board held 6 meetings. For each director, overall attendance at Board meetings and relevant committee meetings, either in person or by conference call, was greater than 75%. All of our then directors attended the 2017 annual stockholder meeting. Although we currently do not require our directors to attend annual stockholder meetings, we do encourage directors to do so and welcome their attendance.

Audit Committee: We have established a separately designated Audit Committee as defined by Section 3(a)(58)(A) of the Exchange Act. Our Audit Committee is composed of three directors, Morton Collins, Andrew H. Chapman and Michael J. Landine, each of whom the Board has determined is independent under the Nasdaq Rules and the applicable SEC rules and regulations. The Board has determined that Mr. Landine is an audit committee financial expert as defined by Item 407(d)(5)(ii) of Regulation S-K of the Exchange Act. Our Board adopted an Audit Committee Charter which is available on our website at www.kopin.com under the heading Investors: Corporate Governance. Our Audit Committee Charter delegates to the Audit Committee the responsibility, among other things, to engage our independent auditors, review the audit fees, supervise matters relating to audit functions, review and set internal policies and procedure regarding audits, accounting and other financial controls, and review related party transactions. The Audit Committee pre-approved all audit and non-audit services provided by Deloitte & Touche LLP for fiscal year 2017. During the 2017 fiscal year, our Audit Committee met in person or through a conference call 6 times. Two members participated in all 6 meetings and one member participated in 5 meetings.

Nominating and Corporate Governance Committee: Our Nominating and Corporate Governance Committee presently is composed of three directors, Mr. Brewington, Dr. Hsieh and Mr. Landine, each of whom the Board has determined is independent under applicable SEC and Nasdaq Rules. The Nominating and Corporate Governance Committee is responsible, among other things, for considering potential Board members, making recommendations to the full Board as to nominees for election to the Board, assessing the effectiveness of the

Board and implementing our corporate governance guidelines. The charter of the Nominating and Corporate Governance Committee is available on the Company's website at www.kopin.com under the heading Investors: Corporate Governance. During the 2017 fiscal year, our Nominating and Corporate Governance Committee met in person or through a conference call 1 time and all 3 members participated in the meeting.

Compensation Committee: Our Compensation Committee presently is composed of two directors, Mr. Collins and Mr. Chapman, each of whom the board has determined is independent under applicable SEC and Nasdaq Rules. The charter of the Compensation Committee is available on our website at www.kopin.com under the heading Investors: Corporate Governance. During the 2017 fiscal year, our Compensation Committee met in person or through a conference call 4 times and both members participated at each meeting. The Compensation Committee is responsible for the approval of remuneration arrangements for our executive officers, review and approval of compensation plans relating to executive officers and directors, including grants of stock options, restricted stock and stock grants under our 2010 Equity Incentive Plan and other benefits and general review of our employee compensation policies.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any other entity that has one or more of its executive officers serving as a member of our board of directors or Compensation Committee. None of the current members of our Compensation Committee has ever been an employee of Kopin or any subsidiary of Kopin.

STOCK OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The table below contains information, as of the dates below, regarding the beneficial ownership of all those know to us to be beneficial owners of more than 5% of our common stock as well as our directors, named executive officers and all of our executive officers and directors as a group.

Name	Amount and Nature of Beneficial Ownership(1)	Percent(2)
John C.C. Fan	5,110,129	6.7
James K. Brewington	130,000	*
David E. Brook	273,760	*
Andrew H. Chapman	166,498	*
Morton Collins(3)	308,500	*
Chi Chia Hsieh	246,000	*
Michael J. Landine	145,000	*
Bor Yeu Tsaur	612,315	*
Richard A. Sneider	321,843	*
Hong Choi	369,104	*
All directors and executive officers as a group (11 persons)	7,683,150	10.0
AWM Investment Company(4)	6,652,845	8.7
Blackrock, Inc.(5)	8,089,852	10.6
Goertek Inc.(6)	7,589,000	9.9

* Less than 1%

- (1) Unless otherwise indicated in these footnotes, each stockholder has sole voting and investment power with respect to the shares beneficially owned.
- (2) The percentage was calculated by dividing the number of shares owned by the beneficial owner as set forth in their Schedule 13G/A divided by 76,524,532, which was the number of shares of our common stock outstanding as of March 21, 2018.
- (3) Included within Mr. Collins Beneficial Ownership are 177,000 shares held in trusts for which he disclaims beneficial ownership.
- (4) Based on information set forth in a Schedule 13G/A filed by AWM Investment Company on February 13, 2018. AWM Investment Company's business address is 527 Madison Avenue, Suite 2600, New York, NY 10022.
- (5) Based on information set forth in a Schedule 13G/A filed by Blackrock, Inc. on January 19, 2018. Blackrock, Inc.'s business address is 55 East 52 Street, New York, NY 10055.
- (6) Based on the sale of 7,589,000 shares of our common stock on April 20, 2017 to Goertek Inc.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on a review of reports furnished to us or written representations from our directors and executive officers and other information, we believe that none of our directors, executive officers or 10% stockholders, failed to file on a timely basis the reports required to be filed pursuant to Section 16 of the Exchange Act during the fiscal year 2017 except as follows: our EVP Display failed to file a Form 4 for the forfeiture of 25,000 share of restricted stock and we do not believe that Goertek Inc. filed a Form 3 when they purchased Kopin Stock on April 20, 2017. Each of our non-employee directors reported their annual stock grant of 10,000 shares of restricted stock for the fiscal year 2017, which were granted on May 31, 2017, on a Form 4 filed on June 2, 2017.

COMPENSATION AND OTHER INFORMATION CONCERNING DIRECTORS AND OFFICERS

Compensation Discussion and Analysis

The following compensation discussion and analysis summarizes our philosophy and objectives regarding the compensation of our named executive officers, including how we determine elements and amounts of executive compensation. The following compensation discussion and analysis should be read in conjunction with our tabular disclosures which directly follow the discussion, beginning on page 17 of this proxy statement.

This Compensation Discussion and Analysis(CD&A), describes the company s executive compensation program, philosophy and objectives as they related to our 2017 Named Executive Officers (NEOs). Our NEOs for 2017 were:

John C.C. Fan, President, Chief Executive Officer, Chairman of the Board

Richard A. Sneider, Treasurer and Chief Financial Officer

Boryeu Tsauro, Executive Vice President Display Operations

Hong, Choi, Chief Technology Officer

Executive Summary

Provided below are key Company performance and executive compensation highlights for 2017:

Company Performance Highlights:

In 2017, we continued to make substantial progress to reinvent the Company as the leading provider of enterprise and consumer wearable technologies and solutions. Below is a summary of certain performance highlights which occurred in 2017:

We completed agreements with Goertek, the largest manufacturer of VR and AR products in the world, to jointly develop and commercialize a range of technologies and wearable products. In conjunction with these agreements, Goertek acquired an approximate 10% position in Kopin;

We acquired NVIS Inc., a maker of professional virtual reality display systems for the training and simulation market, a new growth opportunity for us;

We were awarded a new development contract for armored vehicles by the U.S. Army. This is our first armored vehicle program and represents another new growth opportunity for us;

We continued development on our SOLOS wearable glasses targeted at the health and fitness market and in January 2018 at the Consumer Electronic Show we unveiled the new version of SOLOS with additional features to expand the market beyond just cyclists;

We announced a partnership with Lenovo to develop and manufacture AR headsets for the enterprise market;

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We continued developing our Lightning™ OLED micro display. Lightning OLED, the world's first 2K x 2K display at 1 diagonal size and operating up to 120 Hz, addresses many issues in current VR headsets, including the large size and weight, the poor image quality due to low display resolution, the heat the headset produces, and image lag, which has led to the complaint that current VR systems have blurry images in fast motion. In 2017, we substantially increased the brightness of the display;

	We completed the development of the Family Weapon Sight Individual		3,731,981	81.58
<hr/>				
Cash on deposit with broker		1,251,375		27.36
Liabilities		(2,977)		(0.07)
Total Net Assets		\$ 4,574,541		100.00

See accompanying notes to condensed financial statements.

AirShares™ EU Carbon Allowances Fund

Condensed Statements of Operations (Unaudited)

For the three months ended April 30, 2009 and 2008, the period from December 11, 2008 (commencement of operations) to April 30, 2009 and the period from August 13, 2007 (inception) to July 31, 2008

	For the three months ended April 30, 2009	For the three months ended April 30, 2008	For the period from December 11, 2008 to April 30, 2009	For the period from August 13, 2007 to July 31, 2008
Income				
Income (loss) on trading of commodity futures contracts:				
Realized loss on closed positions	\$ -	\$ -	\$ (3)	\$ -
Change in unrealized gain (loss) on open positions	793,838	-	(405,838)	-
Unrealized loss on foreign currency translations	(213)	-	(149)	-
Interest income	814	-	1,132	-
Other income	-	-	1,000	-
Total income (loss)	794,439	-	(403,858)	-
Expenses				
Management fees (Note 3)	7,698	-	13,254	-
Interest expense	7,268	-	7,268	-
Brokerage commissions	-	-	2,079	-
Total expenses	14,966	-	22,601	-
Net income (loss)	\$ 779,473	\$ -	\$ (426,459)	\$ -
Net income (loss) per share outstanding	\$ 3.90	\$ -	\$ (2.13)	\$ -
Net income (loss) per weighted average share outstanding	\$ 3.90	\$ -	\$ (2.13)	\$ -
Weighted average shares outstanding	200,000	-	200,000	-

See accompanying notes to condensed financial statements.

AirShares™ EU Carbon Allowances Fund

Condensed Statements of Changes in Shareholders' Equity (Unaudited)

For the period from December 11, 2008 (commencement of operations) to April 30, 2009
and the period from August 13, 2007 (inception) to July 31, 2008

	Sponsor Contribution	Shares	Total
Balances, at August 13, 2007 (inception)	\$ -	\$ -	\$ -
Initial contribution of capital	1,000	-	1,000
Balances, at July 31, 2008	1,000	-	1,000
Addition of 200,000 shares	-	5,000,000	5,000,000
Net loss	-	(426,459)	(426,459)
Balances, at April 30, 2009	\$ 1,000	\$ 4,573,541	\$ 4,574,541
Shares Outstanding			
At July 31, 2008	-	-	-
At April 30, 2009	-	200,000	200,000
Net Asset Value Per Unit			
At August 13, 2007 (inception)	\$ -		
At December 11, 2008 (commencement of operations)	\$ 25.00		
At April 30, 2009	\$ 22.87		

See accompanying notes to condensed financial statements.

AirShares™ EU Carbon Allowances Fund

Condensed Statements of Cash Flows (Unaudited)

For the period from December 11, 2008 (commencement of operations) to April 30, 2009
and the period from August 13, 2007 (inception) to July 31, 2008

	For the period from December 11, 2008 to April 30, 2009	For the period from August 13, 2007 to July 31, 2008
Cash Flows from Operating Activities:		
Net loss	\$ (426,459)	\$ -
Adjustments to reconcile net loss to net cash used in operating activities:		
Increase in commodity futures trading account - cash	(1,251,375)	-
Unrealized loss on futures contracts	405,838	-
Increase in management fees payable	2,977	-
Net cash used in operating activities	(1,269,019)	-
Cash Flows from Financing Activities:		
Issuance of shares	5,000,000	1,000
Net cash provided by financing activities	5,000,000	1,000
Net Increase in Cash and Cash Equivalents	3,730,981	1,000
Cash and Cash Equivalents, beginning of period	1,000	-
Cash and Cash Equivalents, end of period	\$ 3,731,981	\$ 1,000
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 7,268	\$ -

See accompanying notes to condensed financial statements.

AirShares™ EU Carbon Allowances Fund
Notes to Condensed Financial Statements
For the three months ended April 30, 2009 (Unaudited)

NOTE 1. ORGANIZATION AND BUSINESS

AirShares™ EU Carbon Allowances Fund (the “Fund”) was organized as a statutory trust under the laws of the state of Delaware on August 13, 2007. The Fund is a commodity pool that issues units of beneficial interest (“Shares”) that may be purchased and sold on the NYSE Arca, Inc. (the “NYSE Arca”).

The investment objective of the Fund is to provide investors with investment results which correspond to the performance of a basket of exchange-traded futures contracts for carbon equivalent emissions allowances (“EUAs”), expiring in December 2009, 2010, 2011 and 2012. An EUA is an entitlement to emit one metric tonne, or ton, of carbon dioxide equivalent that is transferable under the European Union Emissions Trading Scheme (the “EU ETS”). The EU ETS is a “cap and trade” emissions trading program established by the European Union in furtherance of the joint commitment of its member states under the Kyoto Protocol to reduce their greenhouse gas emissions. The Kyoto Protocol, which was adopted pursuant to the United Nations Framework Convention on Climate Change, seeks to achieve the stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent adverse effects on the world’s climate system resulting from human activities. The developed countries that have ratified and are parties to the Kyoto Protocol have committed to adopt national policies and measures intended to return greenhouse gases generally to their 1990 levels. Each such party must meet its commitment over the 5-year period commencing January 1, 2008 and ending December 31, 2012.

The Fund accomplishes its objectives through investments in long positions in ICE Futures ECX Carbon Financial Instrument Futures Contracts (“ECX CFI Futures Contracts”) expiring in December. ECX CFI Futures Contracts have been developed by the European Climate Exchange (the “ECE”) and are listed and admitted to trading on the London-based ICE Platform operated by ICE Futures. These contracts are standardized contractual instruments for futures on deliverable EUAs issued under the EU ETS. Each contract provides for delivery of 1,000 EUAs on a specified date at a specified price.

The Fund may also invest in other EUA futures contracts expiring in December, including those that trade on other exchanges. If the EU ETS is extended beyond 2012, XShares Advisors LLC (the “Sponsor”) will determine and publicly disclose by no later than September 30, 2012 whether it will extend the operation of the Fund beyond December 2012. The Fund will not be actively managed in the sense that it will not engage in activities designed to obtain a profit from, or to ameliorate losses caused by, changes in the value of its portfolio of EUA futures contracts.

XShares Advisors LLC, a Delaware limited liability company, serves as the Sponsor of the Fund. The Sponsor was formed on March 15, 2006. The Sponsor also serves as the commodity pool operator of the Fund. The Sponsor is registered as a commodity pool operator with the Commodity Futures Trading Commission (the “CFTC”), and is a member of the National Futures Association (the “NFA”).

On June 30, 2008, the Sponsor contributed seed capital to the Fund in the amount of \$1,000. No Shares were issued in connection with the Sponsor’s initial capital contribution. As of April 30, 2009, the Sponsor’s initial contribution of seed capital has not been redeemed, but may be redeemed at any time upon the sale of the initial creation basket.

Environmental Capital Management, LLC (“ECM”), an Arizona limited liability company, serves as the Fund’s commodity trading advisor (the “CTA”), with primary responsibility for trading the Fund’s futures contracts and overseeing its foreign currency hedging activities. ECM is registered with the CFTC as a CTA, and is a member of the NFA in such capacity.

The Fund issues Shares to authorized purchasers by offering creation baskets consisting of 100,000 Shares (“Creation Baskets”) through a marketing agent. The Fund commenced trading on December 11, 2008 following acceptance of a subscription for an initial order from Citigroup Global Markets, Inc. for 200,000 Shares at \$25.00 per Share (\$5.0 million). The Fund issues Shares in Creation Baskets on a continuous basis, at a price equal to the Fund’s cost of purchasing assets underlying such Creation Baskets (excluding commissions costs), plus a pro-rata amount attributable to the excess of uninvested cash and accrued but unearned interest over accrued but unpaid expenses. In addition, the authorized purchasers pay the Fund a non-refundable \$1,000 per Creation Basket transaction fee for each Creation Basket issued. Subsequent to the sale of the initial Creation Basket, Shares can be purchased or sold on a nationally recognized securities exchange in smaller increments. Shares purchased or sold on a nationally recognized securities exchange are not purchased or sold at the net asset value (“NAV”) of the Fund but rather at the market prices quoted on such exchange.

The accompanying unaudited condensed financial statements have been prepared in accordance with Rules 10-01 and 8-03 of Regulation S-X promulgated by the U.S. Securities and Exchange Commission (the “SEC”) and, therefore, do not include all information and footnote disclosure required under accounting principles generally accepted in the United States of America. The financial information included herein is unaudited, however, such financial information reflects all adjustments which are, in the opinion of the Sponsor, necessary for the fair presentation of the condensed financial statements for the interim period.

In November 2008, the Fund initially registered 250,000,000 units on Form S-1 with the SEC. On December 10, 2008, the Fund established its NAV by setting the price at \$25.00 per Share and issued 200,000 Shares in exchange for \$5,000,000. The Fund also commenced investment activities on December 11, 2008 by purchasing ECX CFI Futures Contracts on the ICE Futures exchange. On December 15, 2008 the Fund listed its Shares on the NYSE Arca under the ticker symbol “ASO”.

NOTE 2. ACCOUNTING POLICIES

Revenue Recognition

Futures contracts and forward currency contracts are recorded on the trade date. All such transactions are recorded on the identified cost basis and marked to market daily. Unrealized gains or losses on open contracts are reflected in the statements of financial condition and in the difference between the original contract amount and the market value as of the last business day of the year or as of the last date of the financial statements. Changes in unrealized gains or losses between periods and realized gains or losses on closed contracts are reflected in the statements of operations. The Fund earns interest on assets on deposit and pays interest on its margin deficit with the Fund’s futures commission merchant. The Fund also earns interest on assets on deposit with its custodian.

Foreign Currency

Open commodity futures contracts and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of open commodity futures contracts and other income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on open commodity futures contracts from fluctuations arising from changes in market prices of open commodity futures contracts. Such fluctuations are included with the net realized gains or losses and change in unrealized gains or losses from open commodity futures contracts.

Net unrealized gain or loss on foreign currency translations arise from changes in the fair values of assets and liabilities, other than investments in open commodity futures contracts, resulting from changes in exchange rates.

Income Taxes

The Fund is taxable as a corporation for U.S. federal income tax purposes. Accordingly, it is liable for U.S. federal income tax, and applicable state taxes, at the Fund level at the current corporate rate of 34% plus the applicable state and local tax rates. The imposition of such taxes affects the computation of the Fund's NAV. The Fund's fiscal year end for tax purposes is July 31.

In July 2006, the Financial Accounting Standards Board (the “FASB”) issued Interpretation No. 48 entitled “Accounting For Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity before being measured and recognized in the financial statements. Adoption of FIN 48 was required for fiscal years beginning after December 15, 2006. The Fund adopted FIN 48 upon commencement of the Fund’s operations on December 11, 2008.

Redemptions

Authorized purchasers may redeem Shares from the Fund only in blocks of 100,000 Shares (“Redemption Baskets”). The amount of the redemption proceeds for a Redemption Basket is equal to the proceeds from the liquidation of futures contracts underlying the Redemption Basket, plus a pro-rata amount attributable to the excess of uninvested cash and accrued but unearned interest over accrued but unpaid expenses. In addition, the authorized purchasers pay the Fund a non-refundable \$1,000 per Redemption Basket transaction fee for each Redemption Basket redeemed.

Calculation of NAV

The Fund calculates its NAV on each trading day by taking the current market value of its total assets, subtracting any liabilities and dividing the amount by the total number of Shares issued and outstanding. The Fund uses the ICE Futures settlement price on that day to determine the value of contracts held on the ICE Futures exchange. The market value of all open futures contracts traded on any exchange other than ICE Futures is based upon the settlement price for that particular futures contract traded on the applicable exchange on the trading date.

Use of Estimates

Preparation of the financial statements and related disclosures in compliance with accounting principles generally accepted in the United States of America requires the application of appropriate accounting rules and guidance, as well as the use of estimates. The Fund’s application of these policies involves judgments and actual results may differ from the estimates used.

Fair Value of Financial Instruments

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“SFAS 157”) which became effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. The changes to current practice resulting from the application of SFAS 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurement. SFAS 157 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from sources independent of the Fund (observable inputs) and (2) the Fund’s own assumptions about market participant assumptions developed based on the best information available under the circumstances (unobservable inputs). The three levels defined by the SFAS 157 hierarchy are as follows:

Level I – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level II – Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. Level II assets include the following: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than

quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level III – Unobservable pricing input at the measurement date for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available.

In some instances, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest input level that is significant to the fair value measurement in its entirety.

The following table summarizes the valuation of securities at April 30, 2009 using the fair value hierarchy:

At April 30, 2009	Level I	Level II	Level III	Total
Futures Contracts	\$ (405,838)	\$ -	\$ -	\$ (405,838)

NOTE 3. FEES PAID BY THE FUND AND RELATED PARTY TRANSACTIONS

Management Fee

The Fund pays the Sponsor a management fee, monthly in arrears, in an amount equal to 0.85% per annum of the NAV of the Fund. The management fee is paid in consideration of the Sponsor’s services as commodity pool operator and for managing the business and affairs of the Fund. From the management fee, the Sponsor pays the fees and expenses of the trustee of the Fund (the “Trustee”), the administrator of the Fund (the “Administrator”), the distributor of the Fund (the “Distributor”) and the CTA, and certain ordinary expenses of the Fund, including computer services, legal and accounting fees and expenses, and printing, mailing and duplication costs.

Offering Costs and Ongoing Registration Fees

Expenses incurred in connection with organizing the Fund and the initial offering of the Shares were paid by the Sponsor. Expenses incurred in connection with the continuous offering of Shares after the commencement of the Fund’s trading operations will be paid by the Fund.

Brokerage Commissions and Fees

The Fund pays to NewEdge USA, LLC (“NewEdge”), which serves as the Fund’s futures commission merchant (the “Commodity Broker”), all brokerage commissions, including applicable exchange fees, NFA fees, give-up fees, pit brokerage fees and other transaction related fees and expenses charged in connection with trading activities.

Extraordinary Fees and Expenses

The Fund pays all of its extraordinary fees and expenses, if any, as determined by the Sponsor. Extraordinary fees and expenses are fees and expenses which are non-recurring and unusual in nature, such as legal claims and liabilities and litigation costs and any permitted indemnification payments related thereto. Extraordinary fees and expenses also include material expenses which are not currently anticipated obligations of the Fund. Routine operational, administrative and other ordinary expenses are not deemed extraordinary expenses.

NOTE 4. CONTRACTS AND AGREEMENTS

The Commodity Trading Advisor

ECM serves as the Fund’s CTA, with primary responsibility for trading the Fund’s futures contracts and overseeing its foreign currency hedging activities. ECM is registered with the CFTC as a CTA, and is a member of the NFA in such

capacity.

For its services as the CTA, ECM received an initial fee of \$25,000 and receives the greater of an annual minimum charge of \$25,000 or an asset charge of 0.1% on the first \$250 million of assets and 0.05% thereafter.

The Commodity Broker

The Commodity Broker executes and clears the Fund's futures transactions and provides other brokerage-related services. NewEdge may execute foreign exchange or other over the counter transactions with the Fund, as principal.

A variety of executing brokers selected by the Sponsor may execute futures transactions on behalf of the Fund. The executing brokers will give-up all such transactions to NewEdge, which serves as the Commodity Broker. On average, total charges paid to the Commodity Broker are approximately \$17.50 per round-turn trade.

The Administrator

The Sponsor, on behalf of the Fund, has appointed Brown Brothers Harriman & Co. ("BBH&Co.") as the Administrator of the Fund. The Sponsor, the Fund and BBH&Co. have entered into an Administrative Agency Agreement in connection therewith. Pursuant to the terms of the Administrative Agency Agreement and under the supervision and direction of the Sponsor, BBH&Co. prepares and files certain regulatory filings on behalf of the Fund. BBH&Co. may also perform other services for the Fund pursuant to the Administrative Agency Agreement as mutually agreed upon by the Sponsor, the Fund and BBH&Co. from time to time. BBH&Co. also serves as the transfer agent of the Fund pursuant to the Administrative Agency Agreement.

The Custodian

BBH&Co. serves as the custodian of the Fund (the "Custodian"), and the Fund and BBH&Co. have entered into a Custodian Agreement in connection therewith. Pursuant to the terms of the Custodian Agreement, BBH&Co. is responsible for the holding and safekeeping of assets delivered to it by the Fund, and performing various administrative duties in accordance with instructions delivered to BBH&Co. by the Fund.

For its services as both the Administrator and the Custodian to the Fund, the Sponsor pays BBH&Co. the greater of an annual minimum charge of \$175,000 or an asset charge of 0.08% on the first \$1 billion of assets and 0.0615% thereafter.

The Trustee

Wilmington Trust Company, a Delaware banking corporation, is the sole Trustee of the Fund. The Trustee's duties and liabilities with respect to the offering of the Shares and the management of the Fund are limited to its express obligations under the Amended and Restated Declaration of Trust and Trust Agreement of the Fund (the "Trust Declaration").

The Trust Declaration provides that the Trustee is compensated by the Sponsor, and is indemnified by the Sponsor against any expenses it incurs relating to or arising out of the formation, operation or termination of the Fund, or the performance of its duties pursuant to the Trust Declaration, except to the extent that such expenses result from the gross negligence or willful misconduct of the Trustee.

The Distributor

The Sponsor, on behalf of the Fund, has appointed ALPS Distributors, Inc. ("ALPS") to assist the Sponsor and BBH&Co., in its capacity as the Administrator, with certain functions and duties relating to the creation and

redemption of blocks of 100,000 Shares (“Baskets”), including receiving and processing orders from authorized purchasers to create and redeem Baskets, coordinating the processing of such orders and related functions and duties.

For its services as Distributor to the Fund, the Sponsor will pay ALPS a fee in an amount to be agreed upon from time to time. ALPS will waive all fees for the first two years of the contract.

NOTE 5. FINANCIAL INSTRUMENTS, OFF-BALANCE SHEET RISKS AND CONTINGENCIES

Market Risk

The Fund holds EUA futures contracts, as well as cash and short-term fixed income debt securities as a result of the inherent leverage in a futures position. Because of the limited diversification of the Fund's assets, fluctuations in the value of the underlying EUA futures contracts greatly affect the price of the Shares. The market risk associated with the Fund's commitments to purchase commodities is the risk arising from changes in the market value of the contracts. The Fund is not designed to be leveraged. The Fund is managed such that the NAV of the Fund corresponds generally to the value of the Fund's long position in futures contracts.

The futures contracts held by the Fund are "marked to market" on each day that the ECE is open for trading. Reductions or increases in the aggregate value of the futures contracts held by the Fund result in corresponding reductions or increases in the NAV of the Fund.

The Fund's exposure to market risk is influenced by a number of factors, including the volatility of interest rates and foreign currency exchange rates, the liquidity of the markets in which the contracts are traded and the relationships among the contracts held. The inherent uncertainty of the Fund's trading as well as the development of drastic market occurrences could ultimately lead to a loss of all or substantially all of investors' capital.

All of the contracts currently traded by the Fund are exchange-traded. The risks associated with exchange-traded contracts are generally perceived to be less than those associated with over-the-counter transactions since, in over-the-counter transactions, the Fund must rely solely on the credit of its respective individual counterparties. However, in the future, if the Fund were to enter into non-exchange traded contracts, it would be subject to the credit risk associated with counterparty non-performance. The credit risk from counterparty non-performance associated with such instruments is the net unrealized gain, if any. The Fund also has credit risk since the sole counterparty to all domestic and foreign futures contracts is the exchange on which the relevant contracts are traded. In addition, the Fund bears the risk of financial failure by the clearing broker.

Fair Value of Derivative Instruments

Derivatives not Accounted for as for as Hedging Instruments under Statement No. 133	Asset Derivatives			
	As of April 30, 2009		As of July 31, 2008	
	Condensed Statement of Financial Condition Location	Unrealized Appreciation/ (Depreciation)	Condensed Statement of Financial Condition Location	Unrealized Appreciation/ (Depreciation)
Commodity Contracts	Assets	\$ (405,838)*	Assets	\$ -

* Includes cumulative appreciation (depreciation) of futures contracts as reported on the Condensed Schedule of Investments.

The Effect of Derivative Instruments on the Condensed Statements of Operations
for the three months ended April 30, 2009 and 2008

Derivatives not Accounted for as for as Hedging Instruments under Statement No. 133	Location of Gain or (Loss) on Derivatives Recognized in Income	Realized Gain or (Loss) on Derivatives Recognized in Income 2009	Change in Unrealized Appreciation or (Depreciation) Recognized in Income 2009	Realized Gain or (Loss) on Derivatives Recognized in Income 2008	Change in Unrealized Appreciation or (Depreciation) Recognized in Income 2008
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Commodity Contracts	Change in unrealized gains (losses) on open positions	\$ -	\$ 793,838	\$ -	\$ -
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Credit Risk

When the Fund enters into futures contracts, it is exposed to credit risk that the counterparty to the contract will not meet its obligations. The counterparty for futures contracts is the clearing house associated with the particular exchange. In general, clearing houses are backed by their corporate members who may be required to share in the financial burden resulting from the nonperformance by one of their members and, as such, should significantly reduce this credit risk. In cases where the clearing house is not backed by the clearing members (i.e., some foreign exchanges), it may be backed by a consortium of banks or other financial institutions. There can be no assurance that any counterparty, clearing member or clearing house will meet its obligations to the Fund.

Currency Risk

The Fund enters into futures contracts that are denominated in euros while the Shares are priced in dollars. As a result, the Fund is exposed to currency risk. While the Fund may use forward currency contracts or options to hedge against this risk, there can be no assurance that such hedging transactions will be available in the future or, even if undertaken, effective. In addition, changes in the value of the Fund's euro-denominated investments, such as its ECX CFI Futures Contracts, during a particular month are not hedged. Thus, the Fund is subject to foreign exchange risk on such changes in value. While hedging may provide protection against an adverse movement in currency exchange rates, it can also preclude the Fund from benefiting from a favorable movement in such exchange rates.

Interest Rate Risk

The Fund is subject to interest rate risk. Substantially all funds received are invested in interest bearing instruments and, therefore, a decrease in interest rates could have a negative impact on the Fund's NAV.

NOTE 6. FINANCIAL HIGHLIGHTS

The following table presents per Share performance data and other supplemental financial data for the three months ended April 30, 2009 for the shareholders of the Fund. This information has been derived from information presented in the condensed financial statements.

	For the three months ended April 30, 2009 (Unaudited)
Per Share Operating Performance:	
Net asset value, beginning of period	\$ 18.97
Total income	3.97
Total expenses	(0.07)
Net increase in net asset value	3.90
Net asset value, end of period	\$ 22.87
Total Return	20.56%
Ratios to Average Net Assets	
Total income	21.39%
Expenses excluding management fees*	0.80%
Management fees*	0.85%
Net income	20.99%
*Annualized	

Total returns are calculated based on the change in value during the period. An individual shareholder's total return and ratio may vary from the above total returns and ratios based on the timing of purchases and sales of Shares of the Fund.

NOTE 7. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 and requires enhanced disclosures to provide information about the reasons the Fund invests in derivative instruments, the accounting treatment of derivative transactions and the effect derivatives have on the Fund's financial performance. SFAS 161 disclosures can be found in Note 5 of these Notes to Condensed Financial Statements.

In September 2008, the FASB issued Staff Position No. 133-1 and FIN 45-4 "Disclosures about Credit Derivatives and Certain Guarantees: An amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" (the "Amendment"). The Amendment is effective for annual and interim reporting periods ending after November 15, 2008. The Amendment requires enhanced disclosures regarding a fund's credit derivatives holdings, including credit default swaps, credit spread options, and hybrid financial instruments containing embedded credit derivatives. The Sponsor has evaluated the Amendment and determined that it will have no impact on the Fund's financial statements.

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

The following discussion should be read in conjunction with the condensed financial statements and the notes thereto of AirShares™ EU Carbon Allowances Fund (the "Fund") included in Item 1 of this quarterly report on Form 10-Q.

Forward-Looking Information

This quarterly report on Form 10-Q, including this "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements regarding the plans and objectives of management for future operations. This information may involve known and unknown risks, uncertainties and other factors that may cause the Fund's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe the Fund's future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project," the negative words, other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and the Fund cannot assure investors that the projections included in these forward-looking statements will come to pass. The Fund's actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors.

The Fund has based the forward-looking statements included in this quarterly report on Form 10-Q on information available to it on the date of this quarterly report on Form 10-Q, and the Fund assumes no obligation to update any such forward-looking statements. Although the Fund undertakes no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, investors are advised to consult any additional disclosures that the Fund may make directly to them or through reports that the Fund in the future files with the U.S. Securities and Exchange Commission (the "SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

Introduction

The Fund was organized as a statutory trust under the laws of the state of Delaware on August 13, 2007. The Fund is a commodity pool that issues units of beneficial interest ("Shares") that may be purchased and sold on the NYSE Arca, Inc. (the "NYSE Arca"). The investment objective of the Fund is to provide investors with investment results which correspond generally, before payment of the Fund's expenses and liabilities, to the performance of a basket of several years of exchange-traded futures contracts for carbon equivalent emissions allowances ("EUAs"), each expiring in December. An EUA is an entitlement to emit one metric tonne, or ton, of carbon dioxide equivalent that is transferable under the European Union Emissions Trading Scheme (the "EU ETS"). The EU ETS is a "cap and trade" emissions trading program established by the European Union in furtherance of the joint commitment of its member states under the Kyoto Protocol to reduce their greenhouse gas emissions. The Kyoto Protocol, which was adopted pursuant to the United Nations Framework Convention on Climate Change, seeks to achieve the stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent adverse effects on the world's climate system resulting from human activities. The developed countries that have ratified and are parties to the Kyoto Protocol have committed to adopt national policies and measures intended to return greenhouse gases generally to their 1990 levels. Each such party must meet its commitment over the 5-year period commencing January 1, 2008 and ending December 31, 2012.

The Fund's portfolio of futures contracts consists of long positions in ICE Futures ECX Carbon Financial Instrument Futures Contracts ("ECX CFI Futures Contracts"), each expiring in December. ECX CFI Futures Contracts have been developed by the European Climate Exchange (the "ECE") and are listed and admitted to trading on the London-based ICE Platform operated by ICE Futures. These contracts are standardized contractual instruments for futures on

deliverable EUAs issued under the EU ETS. Each contract provides for delivery of 1,000 EUAs on a specified date at a specified price. The Fund holds an unleveraged long position in a portfolio of ECX CFI Futures Contracts.

The Fund may also invest in other EUA futures contracts expiring in December, including those that trade on other exchanges. If the EU ETS is extended beyond 2012, XShares Advisors LLC (the “Sponsor”) will determine and publicly disclose by no later than September 30, 2012 whether it will extend the operation of the Fund beyond December 2012. The Fund is not actively managed in the sense that it does not engage in activities designed to obtain a profit from, or to ameliorate losses caused by, changes in the value of its portfolio of EUA futures contracts.

XShares Advisors LLC, a Delaware limited liability company, serves as the Sponsor of the Fund. The Sponsor was formed on March 15, 2006. The Sponsor also serves as the commodity pool operator of the Fund. The Sponsor is registered as a commodity pool operator with the Commodity Futures Trading Commission, and is a member of the National Futures Association (the “NFA”).

Calculation of the NAV

The Fund calculates its net asset value (“NAV”) on each trading day by taking the current market value of its total assets, subtracting any liabilities and dividing the amount by the total number of Shares issued and outstanding. In determining the market value of the Fund’s assets, the Fund uses the ICE Futures settlement price on that day to determine the value of contracts held on the ICE Futures exchange. The market value of all open futures contracts traded on any exchange other than ICE Futures is based upon the settlement price for that particular futures contract traded on the applicable exchange on the trading date.

Management’s Discussion of Results of Operations

Results of Operations. On December 10, 2008, the Fund established its initial NAV by setting the price at \$25.00 per Share and issued 200,000 Shares in exchange for \$5,000,000. The Fund also commenced investment activities on December 11, 2008 by purchasing ECX CFI Futures Contracts on the ICE Futures exchange. On December 15, the Fund listed its Shares on the NYSE Arca under the ticker symbol “ASO”.

During the three months ended April 30, 2009, the total realized gain/(loss) on ECX CFI Futures Contracts and other EUA futures contracts was \$0 and the change in total unrealized gain on ECX CFI Futures Contracts and other EUA futures contracts was \$793,838. The Fund’s total unrealized loss on ECX CFI Futures Contracts and other EUA futures contracts as of April 30, 2009 was \$405,838. The Fund’s NAV per Share increased over this period from \$18.97 to \$22.87, primarily due to gains from investment activities.

Allocation Methodology. The Fund purchases futures contracts with proceeds each time a block of 100,000 Shares (a “Basket”) is created by applying the following allocation methodology. Futures contracts are liquidated applying an analogous allocation methodology in connection with the redemption of Baskets. As a general matter, the Fund purchases ECX CFI Futures Contracts of the then-current year and each of the next subsequent four consecutive years. However, if on the applicable date of determination, annual contracts for each of the five applicable years are not available for trading because the EU ETS has not been extended beyond 2012 and such contracts are otherwise not listed on the ICE Futures exchange, the allocation methodology is applied using only the then-current year and each of the remaining years thereafter through 2012 which are available for trading.

The Basket allocation is determined as follows:

An equal value of each of the included contracts will be purchased by the Fund upon creation of a Basket if either of the following two (2) conditions are met:

Each of the included annual contracts has a 60-day average daily value (“ADV”) traded that exceeds \$100,000,000; or
At the time the order to create a Basket is received, the amount that the Fund would need to invest in each annual contract in order to equally weight the basket does not exceed 5% of that contract’s 60-day ADV.

If neither of the above conditions is met, the allocation will be made among the included annual contracts pro rata in accordance with their respective 60-day ADV.

If the Fund had created one Basket on April 30, 2009, the proceeds would have been allocated among the ECX CFI Futures Contracts expiring in December 2009 through 2012, pro rata in accordance with their respective 60-day ADV, which would have resulted in the following allocations:

Allocations Applicable to a Hypothetical Basket Creation on April 30, 2009

Contract Expiration Date	Allocation
December 2009	75.83%
December 2010	9.41%
December 2011	4.36%
December 2012	10.40%

The Fund intends to include contracts expiring in December of years 2013 and thereafter to the extent they are listed on the ICE Futures exchange and are actively traded according to the criteria described above, even if the EU ETS has not been extended beyond 2012.

Regardless of whether the value of its portfolio is rising, falling or flat over any particular period, the Sponsor will cause the Fund's existing long positions to be closed when appropriate before expiration and reinvest the proceeds from the close into futures contracts expiring in December of the next five subsequent years by applying the same allocation methodology described above. However, if, on the date of reinvestment of such proceeds, EUA futures contracts for December expiration in any year after 2012 are otherwise not listed for trading, the proceeds will be so allocated among the futures contracts expiring in December of the next following year and each of the years thereafter for which annual contracts are available for trading.

The Fund may also invest in other EUA futures contracts, including those that trade on other exchanges, provided that the Fund's allocation to such contracts is consistent with the investment methodology described above. If the EU ETS is extended beyond 2012, the Sponsor will determine and publicly disclose by no later than September 30, 2012, whether it will extend the operation of the Fund beyond December 2012. If the EU ETS is not extended beyond December 2012, then the operation of the Fund will be terminated.

Interest Income. The Fund also earns interest on assets on deposit with the Fund's futures commission merchant and custodian. During the three months ended April 30, 2009, the Fund earned \$814 in interest income. Based on the Fund's average daily total net assets, this is equivalent to an annualized interest rate of 0.09%.

Portfolio Expenses. The Fund's expenses consist of management fees, brokerage commissions and fees, certain offering costs and extraordinary fees and expenses, if any. The Fund pays the Sponsor a management fee, monthly in arrears, in an amount equal to 0.85% per annum of the NAV of the Fund as of the last business day of such month. The management fee is paid in consideration of the Sponsor's acting as commodity pool operator and for its management of the business and affairs of the Fund. From the management fee, the Sponsor pays the fees and expenses of the trustee of the Fund (the "Trustee"), the administrator of the Fund (the "Administrator"), the distributor of the Fund (the "Distributor") and the Fund's commodity trading advisor, and certain ordinary expenses of the Fund, including computer services, legal and accounting fees and expenses, and printing, mailing and duplication costs. During the three months ended April 30, 2009, the Fund paid the Sponsor a management fee of \$7,698.

The Fund also pays to NewEdge USA, LLC ("NewEdge"), which serves as the Fund's futures commission merchant, all brokerage commissions, including applicable exchange fees, interest on its margin deficit, NFA fees, give-up fees, pit brokerage fees and other transaction related fees and expenses charged in connection with trading activities. During the three months ended April 30, 2009, the Fund paid \$0 to NewEdge in brokerage fees and expenses and \$7,268 to NewEdge in interest on its margin deficit.

Expenses incurred in connection with organizing the Fund and the initial offering of the Shares were paid by the Sponsor. Expenses incurred in connection with the continuous offering of Shares after the commencement of the Fund's trading operations will be paid by the Fund.

The Fund also pays all of its extraordinary fees and expenses, if any, as determined by the Sponsor. Extraordinary fees and expenses are fees and expenses which are non-recurring and unusual in nature, such as legal claims and liabilities and litigation costs and any permitted indemnification payments related thereto. Extraordinary fees and expenses shall also include material expenses which are not currently anticipated obligations of the Fund. Routine operational, administrative and other ordinary expenses are not deemed extraordinary expenses. During the three months ended April 30, 2009, the Fund did not incur any extraordinary fees and expenses.

EUA Market. During the three months ended April 30, 2009, the EUA market was impacted by several factors. Most significantly, signs of a slowdown in the deterioration of the global economy increased the prospect for a recovery in economic activity in late 2009 or 2010 for EU member companies, implying greater carbon emissions going forward. This led to a reversal of a six month downtrend in prices in the EUA market. Further, prices were positively impacted by an increase in the price of crude oil versus that of higher-polluting coal.

Critical Accounting Policies

Preparation of the financial statements and related disclosures in compliance with accounting principles generally accepted in the United States of America requires the application of appropriate accounting rules and guidance, as well as the use of estimates. The Fund's application of these policies involves judgments and actual results may differ from the estimates used.

Liquidity and Capital Resources

As of April 30, 2009, the Fund's total net assets consisted of EUA futures contracts and short-term securities and cash, a portion of which is used as margin for the Fund's trading in commodities. The Fund is required to post margin in order to establish a futures position as well as to maintain such a position once it is established. The percentage of the Fund's NAV that is represented by the assets posted as margin may vary from period to period as the market value of the underlying EUA futures contracts changes. If the market value of the contracts decreases, the percentage of the Fund's net assets posted as margin will increase, both because the reduction in market value will reduce the NAV of the Fund and because the margin requirement applicable will increase by the same amount. The balance of the Fund's net assets is held in the Fund's commodity trading account or in a custodial account at Brown Brothers Harriman & Co. During the three months ended April 30, 2009, the Fund earned \$504 in interest income on its short-term securities.

The Fund's commodity contracts may be subject to periods of illiquidity because of market conditions, regulatory considerations and other reasons, including, without limitation, the failure of the member states to adhere to their obligations under the Kyoto Protocol, the withdrawal of countries from the Kyoto Protocol, and the failure of the national registries of a sufficient number of countries to become and to remain linked with an "international transaction log" that tracks and verifies transactions between countries and is administered by the United Nations Framework Convention on Climate Change secretariat. During such periods of illiquidity, the Fund may be unable to promptly liquidate its commodity futures positions.

Since the Fund trades futures contracts, its capital is at risk due to changes in the value of these contracts (market risk) or the inability of counterparties to perform under the terms of the contracts (credit risk). Since these contracts are denominated in euros, the Fund is also subject to currency exchange risk.

Credit Risk

When the Fund enters into futures contracts, it is exposed to credit risk that the counterparty to the contract will not meet its obligations. The counterparty for futures contracts is the clearing house associated with the particular

exchange. In general, clearing houses are backed by their corporate members who may be required to share in the financial burden resulting from the nonperformance by one of their members and, as such, should significantly reduce this credit risk. In cases where the clearing house is not backed by the clearing members (i.e., some foreign exchanges), it may be backed by a consortium of banks or other financial institutions. There can be no assurance that any counterparty, clearing member or clearing house will meet its obligations to the Fund.

Currency Risk

The Fund enters into futures contracts that are denominated in euros while the Shares are priced in dollars. As a result, the Fund is exposed to currency risk. While the Fund may use forward currency contracts or options to hedge against this risk, there can be no assurance that such hedging transactions will be available in the future or, even if undertaken, effective.

In addition, changes in the value of the Fund's euro-dominated investments, such as its ECX CFI Futures Contracts, during a particular month are not hedged. Thus, the Fund is subject to foreign exchange risk on such changes in value. During the three months ended April 30, 2009, foreign currency translations resulted in a realized gain of \$0 to the Fund and an unrealized loss of \$213 to the Fund and did not materially affect the Fund's NAV. While hedging may provide protection against an adverse movement in currency exchange rates, it can also preclude the Fund from benefiting from a favorable movement in such exchange rates. In addition, prospective investors whose assets and liabilities are predominately denominated in other currencies should take into account the potential risk of loss arising from fluctuations in value between the U.S. dollar and such other currencies.

Interest Rate Risk

The Fund is subject to interest rate risk. Substantially all funds received are invested in interest bearing instruments and, therefore, a decrease in interest rates could have a negative impact on the Fund's NAV.

Off-balance Sheet Arrangements and Contractual Obligations

During the three months ended April 30, 2009, the Fund did not utilize, nor does it expect to utilize in the future, special purpose entities to facilitate off-balance sheet financing arrangements. The Fund has no loan guarantee arrangements or off-balance sheet arrangements of any kind other than agreements entered into in the normal course of business, which may include indemnification provisions related to certain risks service providers undertake in performing services which are in the best interests of the Fund. While the Fund's future exposure under such indemnification provisions cannot be estimated, these general business indemnifications did not have a material impact on the Fund's financial position during the three months ended April 30, 2009.

The Fund's contractual obligations are to the Sponsor and the Fund's commodity brokers. Management fee payments made to the Sponsor are calculated as a fixed percentage of the Fund's NAV. Commission payments to commodity brokers are on a contract-by-contract, or round-turn, basis. As such, the Sponsor cannot anticipate the amount of payments that will be required under these arrangements for future periods, as net asset values and trading levels required to meet the Fund's investment objectives will not be known until a future date. These agreements are effective for one year terms and renewable automatically for additional one year terms unless terminated. Additionally, these agreements may be terminated by either party for various reasons.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Fund holds EUA futures contracts expiring in December, as well as cash and short-term fixed income debt securities as a result of the inherent leverage in a futures position. Because of this limited diversification of the Fund's assets, fluctuations in the value of the underlying EUA futures contracts expiring in December are expected to greatly affect the price of the Shares. The market risk associated with the Fund's commitments to purchase commodities is limited to the gross or face amount of the contracts held. The Fund is not designed to be leveraged. The NAV of the Fund is anticipated to correspond generally to the value of the Fund's long position in EUA futures contracts expiring in December.

Futures contracts are generally considered to be leveraged financial instruments. The initial margin required to be deposited by the Fund in order to establish a particular futures position is determined based on the projected overall risk of the Fund's portfolio. In any event, the initial margin required will be less than the face amount of the contracts held by the Fund.

The Fund intends to manage its operations in such a way that the aggregate value of its futures positions approximates the NAV of the Fund. The Fund buys EUA futures contracts expiring in December each time a Basket is created, and liquidates futures contracts each time a Basket is redeemed.

The futures contracts held by the Fund are “marked to market” on each day that the ECE is open for trading. Reductions or increases in the aggregate value of the futures contracts held by the Fund result in corresponding reductions or increases in the NAV of the Fund.

The futures contracts held by the Fund are denominated in euros while the Shares are priced in dollars. As a result, the Fund is exposed to currency risk. While the Fund may use forward currency contracts or options to hedge against this risk, there can be no assurance that such hedging transactions will be available in the future or, even if undertaken, effective. In addition, changes in the value of the Fund’s euro-denominated investments, such as its ECX CFI Futures Contracts, during a particular month are not hedged. Thus, the Fund is subject to foreign exchange risk on such changes in value. While hedging may provide protection against an adverse movement in currency exchange rates, it can also preclude the Fund from benefiting from a favorable movement in such exchange rates.

The Fund is subject to interest rate risk. Substantially all funds received are invested in interest bearing instruments and, therefore, a decrease in interest rates could have a negative impact on the Fund’s NAV.

The Fund’s exposure to market risk is influenced by a number of factors, including the volatility of interest rates and foreign currency exchange rates, the liquidity of the markets in which the contracts are traded and the relationships among the contracts held. The inherent uncertainty of the Fund’s trading as well as the development of drastic market occurrences could ultimately lead to a loss of all or substantially all of investors’ capital.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

The Fund maintains disclosure controls and procedures that are designed to ensure that material information required to be disclosed in the Fund’s periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time period specified in the SEC’s rules and forms.

The duly appointed officers of the Sponsor, including its chief executive officer and chief financial officer, who perform functions equivalent to those of a principal executive officer and principal financial officer of the Fund if the Fund had any officers, have evaluated the effectiveness of the Fund’s disclosure controls and procedures and have concluded that the disclosure controls and procedures of the Fund have been effective as of the end of the period covered by this quarterly report on Form 10-Q.

Change in Internal Control Over Financial Reporting

There were no changes in the Fund’s internal control over financial reporting during the Fund’s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Fund’s internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 1A. Risk Factors.

There has not been a material change from the risk factors previously disclosed in the Fund's Registration Statement on Form S-1 filed with the SEC on November 6, 2008.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

Monthly Account Statements

Pursuant to the requirement under Rule 4.22 under the Commodity Exchange Act, each month the Fund publishes an account statement for its shareholders, which includes a Statement of Income (Loss) and a Statement of Changes in NAV. The account statement is filed with the SEC on a current report on Form 8-K pursuant to Section 13 or 15(d) of the Exchange Act and posted each month on the Fund's website at www.xsharesadvisors.com/airshares.

Item 6. Exhibits.

Listed below are the exhibits which are filed or furnished as part of this quarterly report on Form 10-Q (according to the number assigned to them in Item 601 of Regulation S-K):

Exhibit Number	Description of Document
31.1*	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification by Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification by Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith
** Furnished herewith

SIGNATURES

Pursuant to the requirements 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.

AIRSHARESTM EU CARBON ALLOWANCES FUND

By: XShares Advisors LLC,
Sponsor of the Registrant

By: /s/ Jeffrey L. Feldman
Jeffrey L. Feldman
Chief Executive Officer

Date: June 15, 2009

By: /s/ David W. Jaffin
David W. Jaffin
Chief Financial Officer

Date: June 15, 2009